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Soviet paddle
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FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

Monday June 9 1986

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Bahamas ... 0.050	Italy ... 1500	S. Korea ... 6.00	S. Korea ... 6.00
Belgium ... 0.45	Japan ... 1500	Singapore ... 25.10	Singapore ... 25.10
Canada ... 0.81	Jordan ... 100.00	Spain ... 16.425	Spain ... 16.425
Ceylon ... 120.70	Korea ... 100.00	St. Lucia ... 10.00	St. Lucia ... 10.00
Denmark ... 0.10	Lebanon ... 25.00	Sweden ... 29.20	Sweden ... 29.20
Egypt ... 0.10	Luxembourg ... 10.45	Switzerland ... 10.00	Switzerland ... 10.00
France ... 0.10	Malaysia ... 10.45	Taiwan ... 10.00	Taiwan ... 10.00
Germany ... 0.10	Mexico ... 10.00	Thailand ... 10.00	Thailand ... 10.00
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Hong Kong ... 10.00	Philippines ... 10.00	USSR ... 10.00	USSR ... 10.00
India ... 10.00	Portugal ... 10.00	USSR ... 10.00	USSR ... 10.00

World news Business summary

N Korea may stage Olympics events

Some events in the 1988 summer Olympics set for Seoul, South Korea, are to be offered to North Korea.

International Olympic Committee president Juan Antonio Samaranch said there would be strict conditions. The borders would have to be opened to everyone attending the games, including 10,000 expected from the news media.

The IOC is to meet this week to try to avert a possible political boycott led by North Korea. The committee, rather than Seoul, will handle negotiations with the north.

Taxi drivers jailed

Several Moscow taxi drivers have been jailed for up to 12 years for cheating the Soviet state out of 3.5m roubles (\$4.9m) over two years by not registering passengers, a Soviet newspaper said.

Disco bomb death

The death toll from the bombing of a West Berlin discotheque two months ago rose to three when a US soldier, Staff Sergeant James Goins, 26, died at the weekend.

Anti-nuclear riot

About 1,000 anti-nuclear demonstrators attacked police and burned barricades in Hamburg, West Germany, following clashes between police and protesters at the nearby Brodowin nuclear power plant.

Pro-Marcos march

Police and soldiers in Manila used tear gas grenades and truncheons to disperse thousands of supporters of ousted Philippine leader Ferdinand Marcos who tried to march on the presidential palace.

Gorbachev visit

Soviet leader Mikhail Gorbachev received an informal welcome when he arrived in Budapest for talks with Hungarian leaders and a summit of the seven-nation Warsaw Pact military alliance. Page 2

Prisoner freed

One of Pakistan's longest serving political prisoners, Rasul Bakht Palejo, has been freed seven years after he was imprisoned for speaking at illegal meetings, according to the left-wing Awami Tehrik (People's Movement) party.

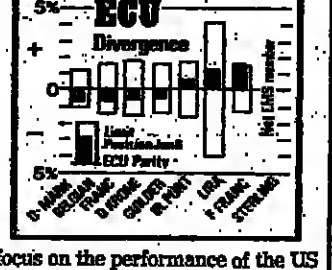
Lendl wins Open

Ivan Lendl (Czechoslovakia) beat Mikael Pernfors (Sweden) to win the French Open men's tennis title in Paris.

Jordan considers buying 40 Tornados

JORDAN is considering buying 40 Tornado fighters in a deal which could be worth £1bn (\$1.5bn) to the British, German and Italian consortium, Panavia, which builds the aircraft. Page 2

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focus on the performance of the US dollar and its reaction to comments that it would probably decline over the next few months.

Haiti poll pledge

Haitian President Henri Namphy, faced with widespread unrest and the threat of a general strike, has promised general elections for next year and appealed for calm after he said the nation was on the brink of civil war.

Cuba frees officer

Colonel Ricardo Montero Duque, the last imprisoned senior officer of the failed 1961 Bay of Pigs invasion, is back in the US after his release from a Cuban prison.

French Government pushed legislation

French Government pushed legislation through the National Assembly making it easier for companies to declare redundancies. Page 2

WEST GERMAN banking supervisors

WEST GERMAN banking supervisors agreed on a new rule to take account of the "off-balance sheet" risks run by banks operating in the growing Eurozone facilities market. Page 2

BRITISH GAS has lost its battle

BRITISH GAS has lost its battle to be privatized with no debt in its balance sheet. Page 2

KENYAN President Daniel arap Moi

KENYAN President Daniel arap Moi said foreigners who want to invest in Kenya must now bring in local partners with a controlling interest.

PHILLIPS PETROLEUM, US oil major

PHILLIPS PETROLEUM, US oil major, plans to use a substantial part of the excess funds in its pension plan to reduce heavy borrowings incurred last year as part of its defence against a hostile takeover bid. Page 2

FURTHER JOINT MEASURES 'REQUIRED'

Group sees little hope for peace talks in S. Africa

BY ROBERT MAUTHNER IN LONDON AND QUENTIN PEEL IN HEEMSKERK

COMMONWEALTH leaders will be told this week that further joint measures against Pretoria may be required because a peaceful dialogue between blacks and whites in South Africa has proved impossible to arrange.

The seven-member Eminent Persons Group, set up by Commonwealth heads of government in October, has concluded that Pretoria was not disposed, at present, to embark on meaningful talks with black opposition leaders.

The group, which has made several visits to South Africa and the African "continent" states over the past few months will set out its findings in a report expected to be sent to Commonwealth heads of government today or tomorrow.

New fears on Mexico's debt as bankers meet

BY PETER MONTAGNON IN BASLE

MR Miguel Mancera, Mexico's central bank governor, has cancelled plans to attend today's annual meeting of the Bank for International Settlements in Basle.

Speculation that Mexico might be facing a run on dollars to service its debt led to a fall of nearly 20 per cent in the value of the peso against the dollar last week.

Other Latin American central bankers said that at the very least commercial banks have to reduce sharply the interest margins they charge on Mexico's rescheduled debt or even eliminate them altogether as part of any eventual rescue package.

EEC to review US 'dialogue'

BY QUENTIN PEEL IN HEEMSKERK

EEC foreign ministers yesterday ordered a review of the state of their political dialogue with Washington on the major areas of world tension, including the Middle East, Central America and southern Africa.

Mr van den Broek said the ministers had agreed that their political directors in the respective foreign ministries should be asked to consider "whether it would be appropriate to intensify our political dialogue with the US."

There is more than that. Our political contacts with the US as far as we are concerned should also refer to those hotbeds of tension and conflict, those areas of the world where we feel that Europe could play a role to further the peace process, and where America is active in the same sense.

Management: Rolls-Royce changes style

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Foreign affairs: paddling Reagan's canoe

Foreign affairs: paddling Reagan's canoe ... 19

Sweden: Survey ... Section III

Swedish: Survey ... Section III

Waldheim wins clear victory in Austrian election

By Patrick Blum in Vienna

DR KURT WALDHEIM, the former United Nations Secretary General, won a clear victory in Austria's presidential election yesterday, despite an international controversy over his wartime past.

His victory is a sharp blow to the ruling Socialist Party. It is the first time since the Second World War that a candidate not supported by the Socialists has won the presidency. Dr Waldheim is backed by the conservative People's Party.

Dr Waldheim had won 53.9 per cent of the vote, almost 8 percentage points more than Dr Kurt Steyrer, his Socialist rival, with only 46.1 per cent.

Dr Waldheim will succeed President Rudolf Kirchschlager, who is retiring after two six-year terms of office, the maximum allowed by the constitution, on July 8.

Dr Waldheim's victory ends a bitter and divisive campaign which was dominated by allegations, which he has always denied, that he was implicated in Nazi atrocities in the Balkans.

Britain is also looking into allegations that he may have been implicated in the disappearances of British commandos captured in the Balkans.

Dr Waldheim predicted that the controversy would die down after the election, but he may encounter difficulties when abroad, as well as face continued protests at home.

Israel officials said this week that if Dr Waldheim was elected Israel would not replace its ambassador in Vienna, who is due to retire shortly.

His election is expected to lead to "co-habitation" problems with the Socialist-led coalition Government.

Shipyards may close as Paris plans aid cut

BY DAVID HOUSEGO IN PARIS

ONE OR MORE of France's major shipyards are likely to be closed down as the result of an expected government decision to discontinue part of its aid to the shipbuilding industry.

Mr Alain Madelin, Industry Minister, told a closed meeting of his party over the weekend that there was currently sufficient work for only one yard and not for the five in existence. He said that it was "unreasonable" for the state to go on paying out FF7,500,000 (\$48,750) a year for each shipyard worker - a cost equivalent to three times their average salary.

The minister's remarks are seen as foreshadowing a government decision to refuse further cash assistance to Normed (Chantiers du Nord et de la Méditerranée), which is needed before the end of the month to help it meet its current obligations.

Normed, a private group which has been kept afloat by state aid since 1982, is one of France's two main shipbuilding companies, with yards at Dunkerque in the north and La Seyne and La Ciotat on the Mediterranean.

The blocking of fresh aid could force the company to file for bankruptcy. In the view of Mr Madelin, one of the ministers most hostile to state intervention in the economy, it would then be the company's responsibility - and not the Government's - to decide how many and which yards to close.

The issue of shipbuilding subsidies is seen as a major test of whether the conservative administration of Mr Jacques Chirac is prepared to risk unpopularity in support of its free-market principles. Subsidies to the industry will cost the state FF7.5bn this year, after FF7.5bn in 1984 and over FF7.3bn last year.

UK to study Soviet space mission offer

BY PETER MARSH IN LONDON

BRITAIN would study with interest any formal offer to provide an astronaut for a Soviet space mission, the Department of Trade and Industry said yesterday.

Mr Ken Warren, a Conservative MP, was told on a recent parliamentary visit to Moscow that the Soviet Union would welcome a British astronaut on a future space flight. He has written to Mr Geoffrey Pattie, the Industry Minister with responsibility for space, providing further details of the proposal.

Since 1978 the Soviet Union has taken one person from each of 11 countries - France, India and nine Comecon nations - as guests on manned space flights. Sweden has also been asked if it wants to supply astronauts, and Syria has two people preparing for a future Soviet space flight.

The guest astronauts normally stay in orbit for about a week, engaging in activities such as scientific experiments and taking photographs of the earth.

Mr Jean-Loup Chrétien, a Frenchman who went on a Soviet mission in 1982, surprised his hosts by taking along orchids and a supply of French food. Mr Rakesh Sharma, an Indian who spent 10 days in space in 1984, kept in shape by doing yoga.

Continued on Page 20

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OVERSEAS NEWS

Gorbachev adopts low profile in Hungary

BY LESLIE COLLITT IN BUDAPEST

THE Soviet leader, Mr Mikhail Gorbachev, began a visit to Hungary yesterday. It was his first absence from Moscow since the Chernobyl nuclear accident, which severely tested his reputation for decisiveness. But Mr Gorbachev appeared determined to show that Chernobyl marked only a temporary setback for his policy of frankness at home and political initiative abroad. The visit to Budapest is to be followed by a Summit of Warsaw Pact countries. During the next few days more details of the Soviet leader's recent disarmament proposals are expected to emerge.

Mr Gorbachev's first visit to Hungary as head of the Soviet Communist Party illustrated the no frills approach he has introduced in relations with other east bloc countries. Mr Janos Kadar, the 74-year-old Hungarian leader, welcomed him to the airport without the usual guard of honour, playing of national anthems, or speeches. Scarcely a Soviet flag could be seen in the streets of Budapest, and the tens of thousands of tourists in the city from East and West were largely unaware of Mr Gorbachev's presence. Talks between the Soviet and Hungarian leaders began in the

house in the Buda Hills where Mr Gorbachev is staying. Mr Gorbachev's reformist approach to the Soviet economy has been welcomed in Hungary which was the first East European country to introduce market-oriented socialism. Hungarian officials note that Mr Gorbachev has been content to allow Hungary to continue liberalising its economy. The Chernobyl accident was not raised by either Mr Gorbachev or Mr Kadar, according to a Hungarian spokesman. Hungary suffered an estimated \$150m (£102m) in losses in farm exports after the radiation fallout from Chernobyl.

The Hungarians along with the other east Europeans, were not informed by Moscow of the extent of the fallout and accordingly did not send the usual messages of sympathy to the Soviet leadership. Mr Gorbachev's visit to Budapest is taking place only a few months before the 30th anniversary of the Hungarian uprising which was put down by Soviet tanks.

● Gorbachev (right): No frills approach



Blacks fear Pretoria may impose martial law

By Patti Waldmeir in Johannesburg

Hints that the South African Government is considering re-imposing a state of emergency or even martial law in the country have sent many black activists into hiding in anticipation of a security crackdown ahead of next week's tenth anniversary of the June 16 Soweto uprising.

Reports over the weekend in the country's Afrikaans Press, which has close links with the ruling National Party Government, spoke of the possibility that the Government may adopt wide-ranging emergency powers, or even impose martial law, to deal with country-wide mass protests planned by anti-apartheid groups to commemorate June 16, the most important day on the black political calendar. Public meetings to celebrate the anniversary of the Soweto revolt in 1976 have already been banned.

Anti-apartheid groups, which have launched a campaign of opposition to the proposed laws, argue that they would allow the Minister to declare a state of emergency in all but name... The multi-racial United Democratic Front is to challenge the ban on meetings this week in the Supreme Court and several anti-apartheid leaders, including Bishop Desmond Tutu and Rev Allan Boesak, have said they will defy the restrictions.

The threat of martial law may also be aimed at pressuring the Government to drop their opposition to new security legislation now before the country's tricameral parliament. Delaying tactics adopted in the Indian and coloured Houses have frustrated Government's intention of putting two new security laws on the statute books by June 16. The proposed legislation would remove judicial safeguards on some forms of security detention and enable the Minister of Law and Order to declare "unrest areas" where security forces would have wide discretionary powers.

Berlin dispute settled East Germany will stop passport controls at Berlin crossing points and issue them with diplomatic passes. Western officials said yesterday. Reuter reports from East Berlin. The move follows a two-week dispute after the introduction of passport controls which Nato countries held to be a violation of the city's post-war status.

Cyprus protests The Cypriot Government is making a strong protest to the United Nations over the planned visit of Mr Turgut Ozal, Turkish Prime Minister, to the Turkish-held northern part of the island, early next month, writes Andreas Hadjipapas in Cyprus.

IMF deal for Gambia The Gambia has reached agreement with the International Monetary Fund on conditions under which the IMF will second a team of advisers to the West African state, AP reports from Banjul.

Paris eases law on worker redundancies

BY PAUL BETTS IN PARIS

THE FRENCH conservative government has pushed legislation through the National Assembly making it easier for companies to declare redundancies.

The controversial legislation is a key component of the right-wing government's economic strategy to try to stimulate investment and job creation. The Government argues that giving business greater flexibility to hire and fire workers will also encourage it to recruit more workers than in the past. The legislation is fiercely opposed by the Socialist Party and has provoked alarm and anger in the French labour movement. The Socialist Party has tabled a censure motion against the Government to underline its opposition to the new redundancy legislation although the move is largely symbolic since it has no chance of being approved.

The extreme right National Front voted together with the neo-Gaullist RPR party and the UDF centrist coalition in favour of the bill while the Socialists and the Communists opposed it. The bill now goes to the Senate where the right also has the majority. The legislation will allow companies to declare immediate

redundancies without having to seek approval from the local labour inspectorate. The decision has been welcomed by the Patrooot, the French employers' confederation, but has provoked increasing militancy in the labour movement which has until now been mostly demoralised and subdued. Mr Edmond Maire, the head of the pro-Socialist CFTD union, expressed his anger at the vote and warned of the reaction the new legislation could provoke among the unions.

A protest was also staged in Paris on Saturday night by opponents of the Government's privatisation plans for France's oldest and biggest state television network TF1. The controversy over the government's broadcasting reform is straining the already complex cohabitation between the Socialist President and right-wing government.

However, polls published at the weekend showed that a large majority of French voters appeared to be pleased with the results so far of cohabitation and would like it to continue until the scheduled date for the next presidential election in 1988.

Violence mars W. German protests against N-power

BY PETER BRUCE IN BONN

VIOLENT CLASHES between police and masked youths dominated anti-nuclear power protests in West Germany at the weekend.

Police and youth clashed at demonstrations at a newly completed reactor near Brokdorf in Schleswig-Holstein and again, at the site of a planned reprocessing plant near Wackersdorf in Bavaria on Saturday. In Hamburg yesterday more than 200 people were arrested and several policemen were injured when protesters gathered to demonstrate against police tactics at Saturday's rallies.

The fighting appears to have been sparked by the introduction of tough new police methods, particularly around Wackersdorf where a new police chief has been installed. Police, apparently much more disciplined than two weeks ago when more than 200 were hurt in clashes with the youths, have begun to use snatch squads to catch people throwing petrol

bombs or attacking their lines with slingshots and catapults. About 50 people were arrested at the Wackersdorf site. One demonstrator lost three fingers when a thunderdash exploded in his hand.

As at Wackersdorf the demonstration at Brokdorf was apparently proceeding peacefully until about 1,500 masked youths, nicknamed Chacotas (chaos makers) by the German press, began attacking police vehicles. Although some 40,000 people attended the rally outside the plant, tempers had already been raised by the police who stopped thousands more from reaching the plant on Saturday by blocking the roads to it. In the ensuing fighting some 60 police were hurt and 40 people arrested. In Hamburg yesterday about 600 youths occupied a square in the city and while police managed to corner some, about 400 escaped to erect street barricades and fight running battles with police.

Aquino urged to include Communists in coalition

BY CHRIS SHERWELL, SOUTHEAST ASIA CORRESPONDENT, IN SINGAPORE

A FOUNDER member of the Philippines Communist Party has called on President Corason Aquino to include the country's "revolutionary forces" in a coalition government in order to overcome the country's economic and political crisis.

Mr Sison also said that the Communist Party would not be "baited" into accepting legislation if it meant giving up its military strength. But a cease-fire with the Government was negotiable, and this was now being studied. Government forces, he insisted, had to end their offensive. AP reports: Mrs Aquino has said she will not run in any presidential election that might be called under a new Philippine constitution now being drafted by a 48-member commission she formed two weeks ago.

Asked why Mrs Aquino should include a party which did not help her win power, Mr Sison insisted that it was the "revolutionary forces" led by the Communist Party, which had laid the foundation for the overthrow of the Marcos regime.

Mr Sison also said that the Communist Party would not be "baited" into accepting legislation if it meant giving up its military strength. But a cease-fire with the Government was negotiable, and this was now being studied. Government forces, he insisted, had to end their offensive. AP reports: Mrs Aquino has said she will not run in any presidential election that might be called under a new Philippine constitution now being drafted by a 48-member commission she formed two weeks ago.

Israel upset by US spy reports

By Andrew Whitley in Tel Aviv

THE ISRAELI Government has firmly rejected a flurry of reports over the past week that its espionage activities in the US may have been much greater than was initially admitted, following the arrest last November of Mr Jonathan Pollard, a former US naval intelligence analyst.

Mr Pollard pleaded guilty in a District of Columbia Court, last Wednesday to spying for Israel, in an elaborate plea bargaining arrangement designed to prevent a lengthy public hearing likely to produce revelations highly embarrassing to Israel. The arrest of Mr Pollard and the subsequent disclosure that he formed part of a top secret intelligence unit, headed by a former intelligence advisor to the Israeli Prime Minister, put the normally close bilateral relations with the US under unusual strain.

Yesterday Israel was moved to express its concern over the recent "wave of unfounded pronouncements" regarding the alleged involvement of the Government of Israel in arms deals and espionage activities. A statement issued after a regular meeting of the full Cabinet rebutted comments by Mr William Webster, the FBI Director, that Israel has not been co-operating wholeheartedly with the US investigators, as Prime Minister Shimon Peres had promised in December.

Yesterday's cabinet statement said Israel was committed to a continuation of the full co-operation it had provided over the Pollard case; co-operation said to be based on "the mutual trust between the two countries." It hoped the allegations against Israel would not continue.

A US Grand Jury is currently meeting in secret, looking into the whole question of Israeli espionage in the US raising the possibility that the Pollard case may escalate into a much larger affair, causing serious damage to US-Israel relations. What Israel fears is particularly acute may be trying to head off—is that the Pollard trial will result in prosecution being brought against other American or Israeli citizens. Four Israelis, including Gen Raphael Eitan and a serving senior air force officer, Brig Gen Aviem Sella, were named in court on Wednesday as "undicted co-conspirators."

Jordan may buy 40 Tornado jets

By Peter Bruce in Maniöver

JORDAN is considering buying 40 Tornado fighters in a deal which could be worth \$1bn (\$1.5bn) to the British, German and Italian consortium, Panavia, which builds the aircraft.

Panavia, it emerged yesterday, is also suggesting that Tornado production could be extended by up to 15 years from 1992 when current orders are due to expire.

The British Government, leading the Jordanian negotiations for the other partners, has been talking to Amman about a Tornado sale for four years. A final Jordanian decision is likely to be made by the end of this year, according to a Panavia official at tending the Hanover Air Show.

King Hussein of Jordan has already flown the Tornado and the prospects for a sale have been boosted by the recent US decision not to sell F16s to Jordan.

The Jordanians are interested in the air defence version of the Tornado, not its strike variant, and it is thought likely that this will make it easier for the consortium, particularly with Germany, to sell to Jordan despite inevitable Israeli objections.

The aircraft would cost about DM 50m (\$18m) each to fly away, but a deal would be bound to include separate training and spares agreements.

Chances for a big Tornado export success after British-led deals to sell about 80 aircraft to Saudi Arabia and Oman, have coincided with a serious threat to negotiations on the sale of 40 Tornados to Turkey.

The British, West German and Italian governments have been unable to agree on how to help Turkey finance the purchase.

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Peking to investigate clash at student dance party. BY ROBERT THOMSON IN PEKING. THE Chinese Government, severely embarrassed by the lingering consequences of conflict between Chinese and foreign students, yesterday promised to investigate a recent violent clash and punish those found guilty of "acts of racial discrimination." Chinese students threw stones during a dance party two weeks ago held by foreign students, mostly Africans. The state education commission blamed the violence on differing cultural backgrounds, misunderstandings, and the "tendency of young people to get highly excited." Yu Fuzeng, a spokesman, said that "unhappy incidents" with Chinese and foreign students have happened in the past, but claimed they are "rare." He believed the dance incident at Tianjin, east of Peking, did not involve racial discrimination. China has been generous in providing scholarships to African students for study here but the 1,600 now in China often feel alienated from the Chinese, most of whom have but limited exposure to foreigners and often do not appreciate cultural differences. Some students from poorer African countries spend up to seven years here without a

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OVERSEAS NEWS

WORLD TRADE NEWS

Latin America to resist US move on IADB rules

By Peter Montagnon in Basle

LATIN AMERICAN countries are determined to resist pressure from the US for a change in voting rules that would allow it effectively to veto new loan proposals by the Inter-American Development Bank.

The US is seeking to increase the majority required for the approval of individual loan proposals from 50 per cent of the IADB's shareholders to 65 per cent. This would be in return for support for a \$19.9bn capital increase that would allow the IADB to increase its lending under the so-called Baker plan for easing the debt crisis.

Latin American central bankers attending the bank for international settlements annual meeting in Basle say such a change would have no chance of being ratified by the region's parliaments. The US has a 34.5 per cent voting share on the board of the IADB and could block loans with the support of just one other member.

As a result the role that the IADB will play in implementing the Baker plan still remains to be defined. Only with a substantial increase in capital will it be able to meet its targeted 50 per cent increase in lending to some \$5bn a year.

One fear is that failure to agree a new capital increase would leave the Inter-American Bank unable to make new loans to the four largest debtors in Latin America—Argentina, Brazil, Mexico and Venezuela—reducing it to the minor role of helping only the poorer countries of the region.

Since the Inter-American Bank's annual meeting in San Jose, Costa Rica, last March, the US has refused to modify its conditions for a capital increase.

This also includes a tightening of economic policy conditions applied to its loans so that it can embark on more sectoral programme lending rather than financing specific projects.

Further attempts to resolve the problem will be made at a meeting of the governors' committee in Paris in mid-July.

Venezuela holds out for \$750m refinancing

By our correspondent in Basle

VENEZUELA wants to re-finance all or at least the major part of the \$750 million principal repayment now falling due to bank creditors under its \$2.1bn rescheduling. Mr Benito Raul Losada, central bank governor said in Basle.

The refinancing would be a key part of proposals to amend the rescheduling now in preparation in Caracas, he said. The proposals, due to be presented to creditor banks shortly, could be finalised as early as the end of this week.

He said Venezuela was still willing to make the principal repayment but would seek a simultaneous fresh loan from

its bankers to compensate it for the loss to its reserves.

Still uncertain is the degree to which the longer-term repayment schedule would be modified under the revised rescheduling. President Jaime Lusinchi said in April the rescheduling would have to be reviewed in the wake of falling oil prices.

So far, however, progress has been slow partly because of renewed concern among creditor banks about late interest payments by some Venezuelan state entities.

Mr Losada said these problems were purely administrative

IEA revises upwards oil demand estimate

By Richard Johns

THE International Energy Agency (IEA) has revised upwards its estimate of oil demand in the industrialised world for the April-December period of 1986 as a result of "significantly lower product prices and increasing economic activity" compared to 1985.

Its latest projections indicate that consumption might be sufficient in the last quarter to give a demand for crude produced by members of the Organisation of Petroleum Exporting Countries (Opec) of up to 18m barrels a day—generally reckoned to be the lowest ceiling under which members can agree upon individual quotas with any hope of them being observed.

Opec output, meanwhile, has continued to run at 17.3m b/d, compared with the 16m b/d still notionally in force, according to the IEA's monthly oil market report for May. Most members are exceeding their quotas, with Kuwait, Iraq and the United Arab Emirates being mainly responsible.

The IEA notes that non-Opec supplies increased in May with higher output from Mexico and possibly Egypt while Norway's exports were resumed with the end of an industrial dispute.

Net exports from the Communist world are likely to increase by about 400,000 b/d to about 1.6m b/d in accordance with the normal seasonal pattern, according to preliminary indications.

Despite Opec's campaign to get non-member producers to restrain output, the IEA foresees supplies from other sources averaging 28.6m b/d in the second half of 1986, only marginally below the quarterly

peak recorded in the July-September period of 1985.

Nevertheless, the IEA now reckons demand in the non-Communist world will average 46.2m b/d in the April-December period rising to 47.5m b/d in the last quarter. The forecasts made by the agency three months ago were 45.7m b/d and 47m b/d—with the difference wholly attributable to higher demand from member states of the Organisation for Economic Co-operation and Development (OECD).

Assuming neutral stock movements, demand for Opec crude would be 16.2m b/d in the third quarter, when a slight draw-down in inventories can be expected, and 17.7m b/d in the last quarter when a significant build-up (700,000 b/d in 1985) is probable.

Demand projections are based on current crude oil and product prices. They also take into account three other main considerations:

- Lower petrol pump prices will probably increase the average distance travelled per vehicle off-setting continued improvements in engine efficiency with the result that consumption could grow by 2-3 per cent in the OECD area over 1985.
- Diesel fuel deliveries should increase because of higher economic activity and a rise in the market share of diesel-powered vehicles. Demand for middle distillates could also be up 2-3 per cent.
- The substantial decline in heavy fuel oil demand of the last few years is expected to slow down because of greater use in dual-fired capacity for electricity generation.

Kuwait 'output 1.5m b/d'

By our foreign staff

KUWAIT IS currently producing oil at the rate of 1.5m barrels a day compared with a quota under the Organisation of Petroleum Exporting Countries' (Opec) output sharing pact of 900,000 b/d, according to the newspaper Al-Qabas.

The Kuwaiti daily yesterday said that the state was selling 150,000 b/d on the basis of long-term contracts and—apart from domestic consumption—

the rest through "net-back" deals related to actual market refining and transportation costs.

Meanwhile, Dr Subroto, Indonesia's Minister of Mines and Energy, has said that higher demand for oil should allow Opec to raise production quotas for the last quarter of 1986 at the ministerial conference scheduled to start on Brioni, the Yugoslav island, on June 25.

World Economic Indicators

	RETAIL PRICES (1980 = 100)				% change over previous year
	Apr. 86	Mar. 86	Feb. 86	Apr. 85	
US	131.9	132.2	132.8	129.8	+1.6
UK	146.1	144.7	144.5	141.8	+3.0
W. Germany	129.9	121.0	121.3	121.1	-0.2
France	161.1	162.4	160.0	156.9	+2.7
Italy	200.7	200.1	199.3	188.0	+6.8
Belgium	142.4	141.9	142.1	140.3	+1.5
Netherlands	123.2	122.7	122.6	122.4	+0.6
Japan	115.0	114.6	114.6	114.0	+0.5

Source: Eurostat

Mulroney defends free trade initiative

By Bernard Simon in Toronto

CANADIAN Prime Minister Brian Mulroney has launched the strongest defence yet of his initiative to secure a free trade agreement with the US, in face of new moves in Washington to curb US imports of softwood lumber, one of Canada's most valuable exports.

In the past few days, Mr Mulroney has told business groups in Ontario and Quebec, the industrialised provinces where opposition to lower trade barriers is strongest, that he expects his 20-month-old government to be judged on the free trade initiative.

He said in London, Ontario, that so move by the Conservative Government is "more important or historically significant" than the trade negotiations which began last month.

Separately, federal and provincial governments, the lumber industry and trade unions will meet in Vancouver this week to plan their response to the US Commerce Department's decision to proceed with an inquiry into alleged subsidies on softwood lumber imports from Canada.

EEC and Efta agree joint customs system

By William Dullforce in Geneva

THE EUROPEAN Economic Community (EEC) and the Geneva-based European Free Trade Association (Efta) have agreed to introduce a simplified customs system throughout Western Europe from January 1, 1988.

Agreement was reached last week in Reykjavik at a meeting of the Efta ministerial council attended by Mr Willy de Clerq, the EEC Commissioner responsible for external affairs and trade.

Negotiations will now start on ways of extending to the six Efta countries the "single administrative document" with which Brussels is proposing to replace in 1988 the complex and

diverse customs formalities currently practised by the Community's 12 member states.

The agreement with Efta is a first step towards computerising customs formalities throughout Western Europe and marks a new stage in efforts to create a "dynamic European economic space" through co-operation between the EEC and Efta, Mr de Clerq said.

The talks in Reykjavik have unblocked a number of issues which civil servants have been discussing without reaching results, Mr de Clerq said.

The Brussels Commission received a mandate in March for negotiating the customs document, and had been waiting

for a formal commitment from all the Efta countries—Austria, Finland, Iceland, Norway, Sweden and Switzerland.

The two blocks also agreed to speed up work on simplifying rules of origin, which determine whether products can be imported free of duty, and on creating common standards.

Last year, Efta agreed on principles for co-operating with Ceu and Cenelec, the two main European standards institutions.

The Efta countries have been pressing for access to the Community's research and development programmes. Switzerland, Sweden and Finland have already signed framework

agreements with the Community. Austria and Norway will sign up soon.

Brussels is opening up to Efta companies and research organisations, programmes such as Esprit in information technology, Erite in industrial research, and Race in telecommunications.

Differences persist, however, in telecommunications, where Efta countries want the EEC to liberalise its public procurement regulations and practices.

The EEC Commissioner has pointed out that opening up public procurement in telecommunications has not yet been realised within the Community.

Paris seeks alternative to AT&T

By Paul Betts in Paris

THE FRENCH Government is to hold talks with the heads of leading international telecommunications companies in the next few weeks to try to find alternative solutions to a landmark deal between Compagnie Generale d'Electricite (CGE), the nationalised French electronics and telecommunications group and American Telephone and Telegraph (AT & T).

The deal would give AT & T a 16 per cent share of the French public telephone switch market.

The French industry ministry confirmed in a communique that Mr Alain Madelin, the new Industry Minister, and Mr Gerard Longuet, the secretary of state for Post and Telecommunications, are planning to review all possible alternatives to the CGE-AT & T deal in coming weeks.

However, the controversial deal still appears to have the strongest chances of being approved. The proposed agreement would associate AT & T with CGCT, the troubled French nationalised telecommunications manufacturer formerly owned by ITT which currently has a 16 per cent share of the French public switch market.

SHIPPING REPORT

Encouraging rise in rates

Financial Times Reporter

A STEADY level of business last week for crude oil tankers is reported by Galbraith's, the shipping brokers.

Several very large crude oil tankers in the Arabian Gulf have been fixed during the past week on a private basis, with a similar number of market fixtures.

For the 220,000 dwt the highest rate reported for an Arabian Gulf/Japan movement was Worldwide 40—a marginal improvement on the previous week. Rates for movements to Western destinations

had been equally encouraging with Worldwide 40 having been paid for a 250,000 dwt to north-west Europe.

The Mediterranean Sea had been fairly active, said Galbraith's, although the prevailing rates had softened slightly. There had been a reasonably steady flow of orders from West Africa, but rates had softened slightly.

"Owners have taken a view of the market and decided to accept lower levels in anticipation that rates will drop further," said Galbraith's.

Oil tanker boom forecast

By Anatole Kalisky

LOWER oil prices should produce a boom in the tanker market during the next few years, according to a report published today by the City University Business School.

Tanker prices could rise by as much as 300 per cent by 1988 because of the extra demand generated by the recent collapse in oil prices, while freight rates could rise even higher over a slightly longer period.

These conclusions are based on a newly developed model of the international shipping market which is unveiled in the quarterly economic review of the City University Business

School. The model assumes an oil price of \$12.50 per barrel in 1986, rising thereafter at the rate of world inflation. This implies that a growth rate of 6 per cent in seaborne trade in oil to 1990 and growth of 3.2 per cent after that.

The Middle East would regain its share of the oil market and the percentage of long-haul oil in seaborne trade would rise from 30 per cent in 1985 to 30 per cent in 1990 and 36 per cent in 1995.

As a result, the percentage of tanker tonnage laid up should fall from 18.4 per cent in 1986 to less than 1 per cent by 1989.

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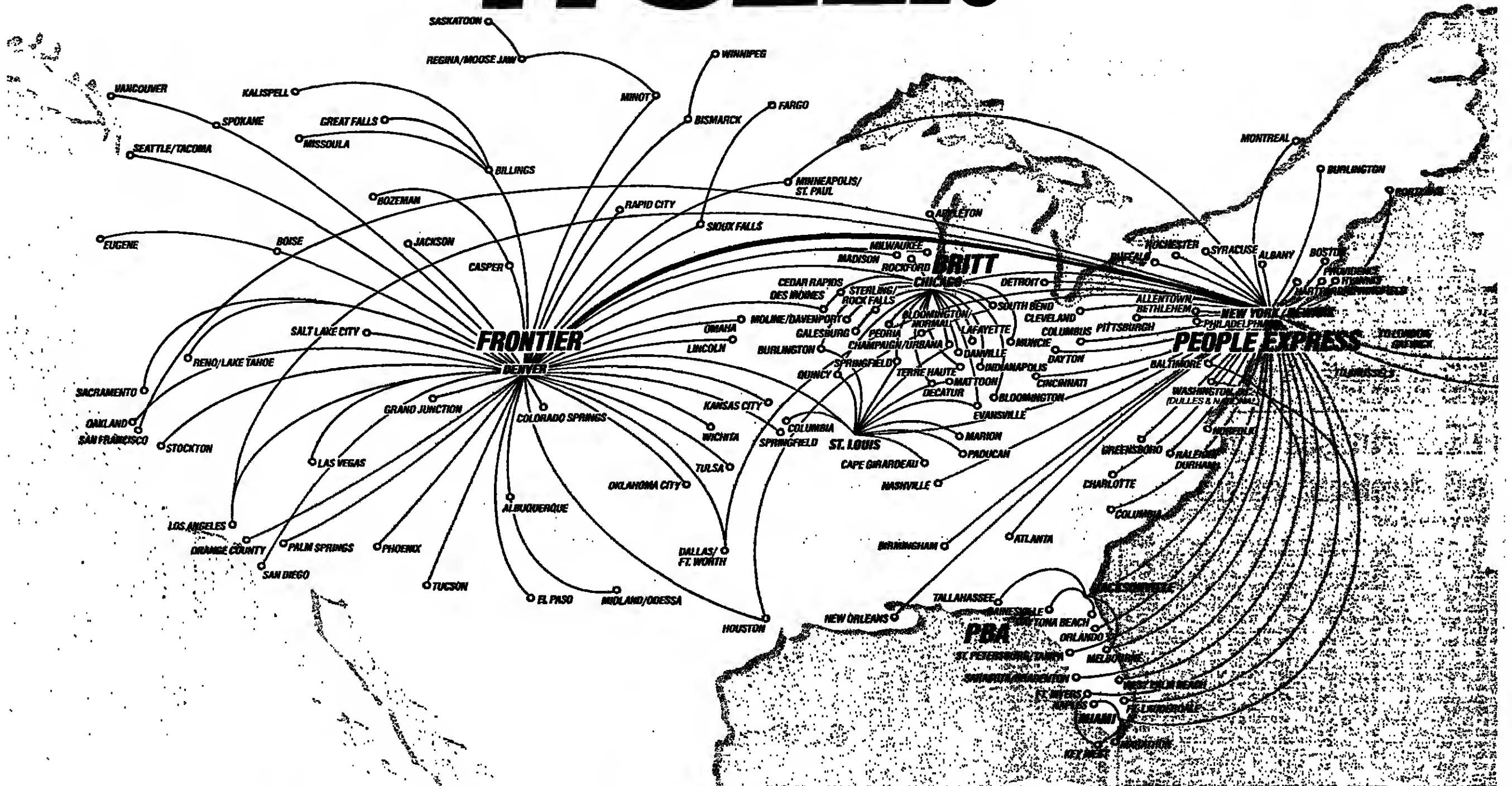
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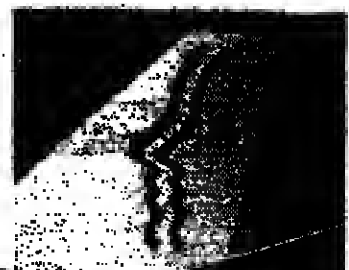
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UK NEWS

Japanese cars 'barred by third of fleet buyers'

BY JOHN GRIFFITHS

ONE BRITISH company in three operates an embargo against the purchase of Japanese cars, according to a survey carried out by Herondrive, the vehicle fleet management and leasing subsidiary of Mr Gerald Ronson's Heron Corporation.

Some 38 per cent also operate a "buy British" policy, although there is a great deal of confusion over the true origin of some cars, the survey has found. Twenty-six per cent are also ready to include European cars in their purchases.

Cars from Eastern Europe and Third World countries are not considered at all.

Herondrive concludes that the survey, which covered 50 companies running a total of 35,243 cars, should be seen as encouraging for Austin Rover. Even in the case of its Honda-based cars, such as the Rover 200 series, all the surveyed companies perceive them to be wholly British.

The companies had some difficulty in classifying both General Motors' Vauxhall/Opel operations and Ford. The two multinationals were classed as European by 52 per cent, as British by 35 per cent and as British and European by 8 per cent. Some 2 per cent regarded them as American.

This shows, concludes the survey, that there is a continuing need for Ford and GM to emphasise their involvement in the UK.

"The strength of their UK branding and low perception of the internationalisation of component supply makes it feasible for them to align themselves more closely to Austin Rover as British products."

A possible source of worry for Peugeot Talbot is that despite Peugeot 308s being built in the UK, many with British engines and transmissions, only 42 per cent of the surveyed companies saw them as British. The survey found 32 per cent to consider the cars to be French, 18 per cent Anglo-French, with 8 per cent "don't know."

The survey indicates that it is Nissan whose UK cars assembly plant goes on stream next month - which may have most to worry about. Nissan intends to go to full production in the UK of at least 100,000 units a year, in addition to its direct imports. It envisages taking 10 per cent of the UK market, compared with 6 per cent now and must win over business car users to achieve this.

Herondrive Country of Origin Survey, Research Communications, Mimosa House, 20 Fulham Road, London SW6 5HE.

Former ICL chief buys Hoare stake

BY WILLIAM DAWKINS

MR ROBB WILMOT, former chairman of the British computer company ICL, has paid £100,000 for a 10 per cent stake in the high technology venture capital group, Hoare Octagon.

Mr Wilmot resigned as ICL's non-executive chairman at the end of last year to concentrate on running the newly formed European Silicon Structures, the pan-European microchip start-up venture of which he is joint chairman.

He becomes a non-executive board member of Hoare Octagon, a joint venture set up two years ago between stockbrokers Hoare Govett and Mr Alex Reid, a former senior manager at British Telecom and one-time chairman of Acorn, the troubled computer group.

Hoare Octagon manages two funds under the Business Expansion Scheme (BES), which permits private investors to claim tax relief for the cost of buying shares in unquoted ventures. Since its formation Hoare Octagon has put £3.7m into a total of 23 companies.

"Although the established venture capital world is doing an effective job, it is leaving a huge gap in the economic process. It does not cope with high growth enterprises in the very early stages of growth. So I am putting my money where my mouth is," Mr Wilmot said.

He estimated that less than a fifth of the cash raised under the BES has gone into "genuine high growth enterprises."

Mr Wilmot said Hoare Octagon fitted his own philosophy of attempting to identify high growth embryos of big companies of the future rather than just investing in small businesses for their own sake.

The group follows a US style of venture capital investment, trying to build trading links between portfolio companies.

Mr Rupert Hambro, who was formerly chief executive of Hambros, said the aim of the new company was to offer specialist skills and objective advice at a time when the changes in the City of London were producing large, often impersonal, financial groupings.

"The main aim is to use our name and capital to back what we foresee to be the fall-out from the Big Bang," he said. "We want to be able to take the long view, over 10 years, rather than react to short-term changes."

City company started by Hambro family

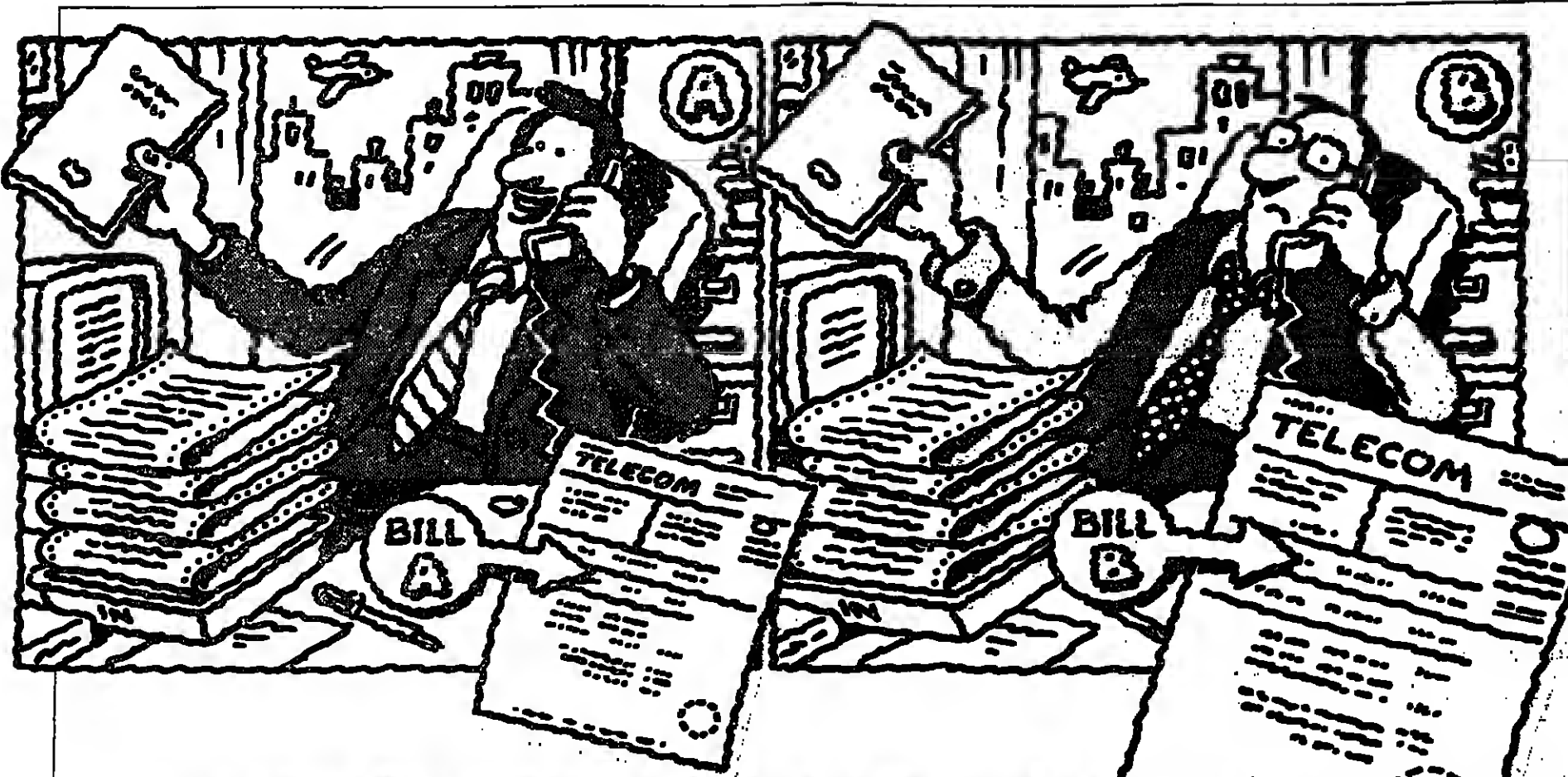
By David Lascelles

AN INVESTMENT company, J. O. Hambro & Co, has been set up by the branch of the Hambro family that recently left Hambros Bank and sold most of its stake.

The chairman of the company will be Mr Jocelyn Hambro, the former president of Hambros, who will also have a small stake in the concern. The chief owners will be his three sons Rupert, Richard and James. The company's authorised capital will be £25m, with £5m paid up.

Mr Rupert Hambro, who was formerly chief executive of Hambros, said the aim of the new company was to offer specialist skills and objective advice at a time when the changes in the City of London were producing large, often impersonal, financial groupings.

"The main aim is to use our name and capital to back what we foresee to be the fall-out from the Big Bang," he said. "We want to be able to take the long view, over 10 years, rather than react to short-term changes."



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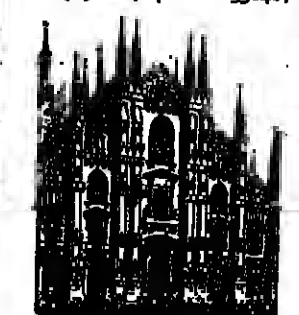
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UK NEWS

Treasury seeks savings through efficiency drive

BY PETER RIDDELL, POLITICAL EDITOR

THE TREASURY intends to seek sizeable savings in major public expenditure programmes through increased efficiency and improved value for money.

A search for savings in some programmes to enable a shift in priorities, permitting higher spending on education, health and housing, is expected to form a central theme of Treasury discussions with other Whitehall departments during the coming round of expenditure decisions.

This emphasis was signalled over the weekend in a party speech by Mr John MacGregor, the Chief Secretary to the Treasury.

Noting recent newspaper headlines about huge bids for public expenditure, he said, "Controlling

public expenditure means getting the numbers right, but equally it means getting value for money. We shall be attaching every bit as much importance to both in the forthcoming expenditure round."

Mr MacGregor stressed the "substantial savings" achieved in the health service, defence and roads from better management and competitive tendering.

His view means that the Treasury will be pressing a number of departments to see whether some of their bids for increased spending, and even some of their existing planned expenditure, can be reduced through efficiency savings.

The differences within the Cabinet about the balance between direct tax cuts and higher spending

on public services, were yesterday seized upon by Mr Roy Hattersley, Labour's Shadow Chancellor of the Exchequer.

In a statement yesterday, he said the issue was "not just tax cuts versus jobs. It is tax cuts versus a decent health service, sewers that work and roads that are repaired, a safe clean environment, a decent pension and a genuine assault on the rising level of crime."

"If the Tories say that they can afford nearly £5bn for tax cuts that disproportionately benefit the rich, rather than ordinary men and women, they cannot also say that there is no money for public investment and improved services," Mr Hattersley argued.

Opposition steps up education campaign

By Our Political Editor

THE LABOUR PARTY is today intensifying its attack on the Government's education policy on the eve of the first major statement of views by Mr Kenneth Baker, the new Education Secretary.

Mr Baker is due to answer education questions in the House of Commons and to open the second reading debate on the Education Bill, both tomorrow.

More than 670 people, including 70 professors, have signed an advertisement appearing in the national press today expressing support for a Labour campaign for higher education and warning that cuts will "perpetuate economic decline and social divisions."

The signatories are supporters of a group organised by Mr Giles Radice, Labour's education spokesman, called Higher Education for the Labour Party, which he claims is attracting "unprecedented support from those professionally concerned with education." The advertisement is a prelude to a special Labour conference on higher education in Birmingham this Friday.

The Government is this morning also accused of "political schizophrenia" over the level of local authority spending on education by Mr Jack Straw, a Labour environment spokesman, in a letter to the Prime Minister.

Mr Straw says an increase in spending per pupil in the past few years has only occurred because education authorities, many of which are Labour run, have "overspent" above government targets.

He argues in the letter that, on the basis of official figures, the Government had planned major cuts in education spending - by 3.5 per cent per pupil in real terms between 1985-86 and 1987-88 - but that local authorities had in the event risen by 7.9 per cent per pupil.

Mr Straw maintains that, if the Government objective had been achieved expenditure per pupil would be now 2 per cent less in real terms than it turned out to be in 1985-86.

Checks on auditing proposed

BY BARRY RILEY

THE INSTITUTE of Chartered Accountants in England and Wales is to consider setting up procedures for quality reviews of the accounts of listed companies.

For the first time, the institute may take the initiative in seeking out accounts which fail to follow laid down accounting standards and disciplining the member firms of chartered accountants which have audited them.

The proposals are a response to the pressures on the accountancy bodies - of which the English institute is the largest - to become more

effective self-regulatory organisations.

Already the accountancy bodies are being reviewed by the Securities and Investments Board, the top watchdog body being set up under new financial services legislation, to tighten their procedures if they are to be licensed to authorise their members to carry on investment-related business.

Auditing is not affected by the Financial Services Bill but nevertheless, in a changing regulatory climate, the question is being raised whether the accountancy bodies have been effective enough in regulat-

ing the quality of company accounts.

At present, there are no routine checks by the accountancy bodies on company accounts. Disciplinary procedures are only invoked when public controversy has been aroused.

But according to one English institute official, the accountants are now debating whether they should implement "a fundamental change of philosophy." This would be to switch from the existing reactive attitude to a positive or "proactive" approach.

Seamen's union leader to switch post

BY DAVID THOMAS, LABOUR STAFF

THE NATIONAL Union of Seamen is to create a special post for Mr Jim Slater, the union's general secretary, following an NUS conference vote last week which means he will lose his present position - the first union leader to do so because of the Government's labour laws.

The NUS executive, meeting at the weekend, confirmed that Mr Slater would lose his job after a decision by the union's conference to reject a proposal depriving him of a vote on the executive.

Under the 1984 Trade Union Act, all voting executive members must

be elected by individual membership ballot at least once every five years - but under union rules prohibiting candidates over 60 standing for general secretary, Mr Slater cannot contest the election because he is 62.

In future, the NUS is to elect its top officials every five years - the first union to do so because of the 1984 Act.

The NUS executive is to create the post of full-time president for Mr Slater, which will be abolished when he retires.

Mr Slater - recently identified with campaigns against the dump-

ing of nuclear waste at sea, and South Africa - will concentrate on environmental and international problems.

Industrial issues will be handled by the new general secretary, who will be elected by NUS members in a ballot to begin on July 21 and be completed by October 21.

Mr Sam McCuskie, assistant general secretary, who has said he will stand, is the clear favourite.

Mr McCuskie, who is also treasurer of the Labour Party, is identified with the centre left of the labour movement. He is a close supporter of Mr Neil Kinnock.

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Walter Ellis looks at the latest prediction for the UK economy

Opec in retreat still has power to shock forecasters

THE Organisation of Petroleum Exporting Countries' capacity in the 1970s to shock has not yet vanished. Economic forecasters in the first half of this year have suddenly had to take account not just of a slide in oil prices but of their precipitous collapse.

Last November, the Treasury was looking ahead to a UK balance of payments current account surplus for 1986 of \$4bn. By the time of the Chancellor's Financial Statement and Budget Report in March — published when the sharp decline in oil prices still had some way to go — this had been revised down to \$3.5bn.

Other analysts, publishing in December, were less bullish than the Government and, on average, forecast a positive balance for this year of \$2.5bn. City brokers, collectively more cautious still, pencilled in just £1.8bn.

Now, following assessment of

Walter Ellis looks at the latest predictions for the UK economy

the latest forecasts, the full extent of the discounting for oil has become apparent. The Financial Times average of 25 forecasts, including that of the Treasury, yields a current account surplus for 1986 of just £2.1bn, with brokers opting, on average, for £1.8bn.

Unfortunately for the Treasury, the City's estimates for the year have so far been holding up best. The revised first quarter estimates on the balance of payments, published last week, show a surplus of \$522m — down nearly \$800m on the provisional figure.

The outlook for Britain's gross domestic product has remained more stable. The

overall expectation is for 2.5 per cent growth this year — up from last December's forecast average of 2.3 per cent — followed by a further 2.5 per cent in 1987.

At the Treasury, at least as far as the short term is concerned, dynamic optimism continues to prevail: 1986 GDP growth is set at 3.0 per cent. The Government and its officials do fall into line for next year, precisely matching the 2.5 per cent consensus, but do so on the annualisation of a first-half projection.

Different measures (as reflected in the footnotes to the table), can, of course, explain certain differences, but not all. A somewhat maverick view on GDP is taken by Liverpool University, which forecasts a rise of 3.5 per cent this year, followed next year by 3.1 per cent (Liverpool also sees current account surpluses of \$4.9bn and \$5.5bn).

Brokers Goldman Sachs — whose senior economists are defectors from Simon & Coates — and the National Institute both expect 1.9 per cent growth this year, but whereas Goldman sees a charge towards 3.1 per cent next year, the National Institute can only manage 1.7 per cent.

Near unanimity is expressed on UK inflation rates. The averages of the 1986 and 1987 forecasts, based on the retail price index, are 3.3 per cent and 3.7 per cent. The Treasury pumps for a rounded 3.5 per cent in each case; the City goes for 3.0 per cent and 3.9 per cent. Most agree that the downward trend of the last year will come under pressure in 1987.

Forecasts of the rate of unemployment also produce a PSBR of above \$2bn in 1987; the Henley Forecasting Centre leads the pack, with £10.9bn. Trade forecasts show the

Treasury in bullish mood for 1986, but then seemingly losing its nerve for 1987. The forecast increases in exports for the two years of 5.0 per cent and 3.0 per cent respectively are ill-matched by the FT averages of 2.9 per cent and 3.6 per cent.

Brokers illustrate this reversal of expectations even more clearly, seeing a rise in exports of 2.4 per cent this year and 3.5 per cent in 1987. Interest rates are notoriously difficult to get right. There is fairly widespread agreement, nevertheless, on three-month interbank rates in the fourth quarter of this year of between 9 per cent and 9.5 per cent and about 9 per cent for October-December, 1987.

Sterling — another reaser for economists — is given an average index reference of just under 75.0 for this year and 72.0 for 1987. The Treasury steers clear of estimates for either.

Several brokers expect a PSBR of above \$2bn in 1987; the Henley Forecasting Centre leads the pack, with £10.9bn. Trade forecasts show the

FORECASTS FOR THE UK ECONOMY (Percentage change from 12 months earlier unless otherwise stated)

Institution	Date	GDP		Current Account		Exports		Imports		Retail Prices		Unemployment		Balance of Payments		Public Sector Surplus		Interest Rates		Sterling Index		
		1986	1987	1986	1987	1986	1987	1986	1987	1986	1987	1986	1987	1986	1987	1986	1987	1986	1987	1986	1987	
Treasury	March	3.0	2.5	4.0	4.8	5.0	3.0	6.0	3.5	3.5	3.5	1.5	7.1	7.0	3.5	1.5	7.1	7.0	110.0	110.0	75.2	75.1
OECD	May	3.0	2.3	3.8	3.5	4.3	2.0	5.8	5.3	4.0	3.8	1.1	2.9	1.4	-2.2	6.7	9.6	9.50	9.1	75.2	75.1	
National Institute	May	1.9	1.7	3.1	3.0	0.7	2.4	2.3	4.7	2.8	3.5	3.1	2.3	3.5	0.5	9.1	8.1	11.0	9.0	74.0	73.0	
London Business School	Feb	2.4	2.9	3.2	4.2	4.4	3.2	5.0	5.5	2.5	3.1	2.3	3.5	0.5	9.1	8.1	11.0	9.0	74.0	73.0		
Confederation of British Industry	April	2.4	2.8	4.0	4.8	4.6	5.0	6.8	6.1	3.5	3.6	3.1	3.0	0.9	2.0	6.7						
Cambridge Econometrics	May	2.1	2.1	3.5	2.8	3.2	2.2	5.3	3.8	3.9	3.4	3.2	3.2	1.9	-3.2	9.1	8.9			74.9	72.1	
Oxford Economic Forecasting	May	2.4	2.2	3.7	3.3	2.2	4.1	3.7	5.9	3.4	4.1	3.2	3.1	1.7	-1.2	7.5	8.5	10.4	8.6	73.9	70.4	
Liverpool University	June	3.5	3.1	3.4	3.6	3.8	3.2	3.8	2.8	3.1	3.0	4.9	5.5	7.7	7.7	9.3	7.2	7.7	9.3	72.2	76.6	
Society of Business Economists	May	2.0	2.5	4.2	3.6	3.1	3.6	4.2	5.8	3.2	3.8	3.0	1.0	8.0	8.0							
Henley Centre	May	2.2	2.2	3.8	2.1	3.7	3.8	4.5	3.4	3.7	4.8	3.2	3.3	3.7	2.1	8.7	10.9	10.7	9.5	73.8	70.1	
Item Club	April	2.2	1.7	3.5	4.8	3.4	2.5	5.9	8.4	3.6	2.2	3.1	3.0	3.7	-2.2	7.3	7.6	10.8	7.9	75.1	73.8	
Sturtevant Hall	April	2.8	2.9	3.0	3.8	4.1	3.9	3.3	3.8	3.2	3.2	3.2	3.2	2.2	1.1	8.0						
Beta Resources Incorporated	April	2.3	2.3	3.0	2.9	2.6	3.8	3.4	5.5	4.0	4.8	3.1	3.0	2.0	-0.1	8.2	8.1			74.0	71.0	
Phillips and Drew	June	2.1	2.3	3.1	3.0	1.6	2.5	3.2	5.2	3.3	4.7	3.2	3.0	0.8	-1.7	8.0	9.5	10.2	10.0	74.0	71.0	
Midland	May	2.5	2.9	3.2	3.2	2.4	3.4	3.0	3.3	1.9	3.1	3.0	3.1	3.2	6.9	7.8	9.3	7.0	75.4	75.1		
James Capel	May	2.0	1.7	3.7	3.6	1.2	2.4	4.8	5.9	3.0	3.6	3.2	3.2	0.8	-2.8	7.8	9.8	10.6	9.5	72.8	70.8	
Heard Lovell	June	3.2	3.1	3.2	4.3	3.9	5.3	6.5	6.5	1.8	3.7	3.2	3.2	2.2	1.1	8.0						
Lalag and Cruickshank	May	2.7	2.4	4.1	4.5	2.8	3.8	4.3	7.6	3.5	5.8	3.2	3.2	1.5	-2.8	6.8	9.9	9.2	11.4	73.1	69.9	
de Zoete and Berman	May	2.0	3.0	3.0	3.5	3.0	7.0	4.0	6.0	3.5	3.5	3.2	3.1	2.0	1.0	7.0	7.5	9.5	9.5	75.0	73.0	
Kleinwort Grieseson	May	3.0	2.5	3.5	3.3	2.9	3.5	2.3	3.3	2.0	2.0	3.2	3.1	1.5	0.5	7.0	7.0	8.5	7.5	72.0	70.0	
Wood Mackenzie	May	2.3	3.0	3.1	3.5	2.2	5.0	2.8	5.0	3.0	4.1	3.2	3.2	0.3	-0.1	7.1	8.5	9.3	9.0	75.9	73.3	
Capel-Care Myers	May	2.4	2.6	3.6	3.2	3.0	3.0	5.0	4.5	3.7	3.9	3.2	3.2	2.5	1.5	7.5	8.0	9.0	9.0	72.0	70.0	
Rose and Pittman	May	2.0	1.0	3.5	2.4	1.5	2.2	3.1	3.0	3.5	4.5	3.5	3.2	1.8	0.8	7.5	8.0	9.5	9.5	74.0	73.0	
Goldman Sachs	Feb	1.9	1.9	3.2	3.2	2.4	3.2	3.0	4.6	1.8	3.7	3.2	3.0	2.5	0.5	7.5	8.0	9.0	9.0	75.0	72.0	
Scrimgeour Vickers	June	2.6	2.1	4.1	3.4	1.7	3.6	3.0	6.9	2.4	4.5	3.2	3.4	1.6	-1.1	7.1	8.4	8.0	9.0	75.8	74.6	
FT Average	2.5	2.5	3.5	3.5	2.9	3.6	4.2	5.2	3.3	3.7	3.2	3.1	2.1	0.1	7.6	8.4	9.4	9.4	8.8	74.5	72.2	
City Consensus	2.4	2.5	3.5	3.5	2.4	3.0	3.8	5.2	3.0	3.9	3.2	3.2	1.6	0.1	7.4	8.3	9.1	9.2	74.2	72.4		

* GDP: Average estimate except—except measure from National Institute, LBS, Cambridge, City University; expenditure measure from Kleinwort Grieseson, DRI, Liverpool, Y RPI; fourth quarter average except for year average from Oxford, Cambridge, Rose and Pittman, Capel-Care Myers; consumer price index average from OECD, Liverpool; GDP deflator year average from City Treasury second quarter. † Unemployment: fourth quarter average except for whole year from Liverpool, Cambridge, Wood Mackenzie; year-end from Rose and Pittman, Capel-Care Myers. ‡ Current account: Treasury 1987 = first half of second quarter; OECD forecast by provisional from US dollars at 32:45; † Sterling index to average for whole year except for fourth quarter from Lalag and Cruickshank and year-end from Wood Mackenzie, Kleinwort Grieseson (1987=March). ‡ Three-month interbank or base rates for fourth quarter except: whole year average from Liverpool, City University, Henley, James Capel; end-year DeZoete and Berman; Capel-Care Myers, Rose and Pittman, Scrimgeour Vickers.

Guinness offshoot managing director

Mr Brian Baldoock has been appointed managing director of GUINNESS DEVELOPMENT GROUP, with responsibility for Guinness interests in retailing, health and publishing. Mr Baldoock was previously chairman and managing director, Imperial Retail and Leisure.

JOHN MOWLEM & CO has appointed Mr J. E. Douthwaite as airport director of London City Airport. He is director of Southampton/Eastleigh Airport, London City Airport will provide facilities for commercial operators of Short Take Off and Landing (STOL) aircraft just six miles from the Bank of England. It is scheduled to open in autumn 1987, owned and operated by a Mowlem Group company.

PANFIDA, Sydney, has appointed Mr Kenneth Vere Nicoll a director. The company is establishing operations in the UK, of which Mr Vere Nicoll will be chief executive. He was an executive director of Earing Act. He has also been re-appointed chairman of the Transport Users' Consultative Committee for Scotland until June 30 1988.

LAND. He is succeeded by Mr G. W. Burnett, a senior partner with Murray Beth & Murray, who has been a director of LAS for 18 years.

AT DEVONSHIRE UNDERWRITING AGENCIES Mr Alan K. Giles has succeeded Mr C. E. Knight, who has retired as underwriter of Marine Syndicate 881/832.

Dr Brian Smith has joined the board of DAVY CORPORATION as a non-executive director. He is chairman of Metal Box, a director of Lister & Co, a member of the British Overseas Trade Board, and was a main board director of ICI from 1978 to 1985.

The Industry Secretary has reappointed Colonel W. A. Dalziel as chairman of the GAS CONSUMERS' COUNCIL FOR SCOTLAND until the new Gas Consumers' Council is established under the proposed Gas Act. He has also been re-appointed chairman of the Transport Users' Consultative Committee for Scotland until June 30 1988.

Privatisation post at National Bus Company

The Secretary of State for Transport has appointed Mr Christopher Campbell a full-time executive member of the board of the NATIONAL BUS COMPANY. Mr Campbell, who has led negotiations for the privatisation of NBC's subsidiaries, joined the Debenhams Group in 1966 and from 1984 until February this year was financial executive and special adviser to the chairman of Debenhams.

SOFTWARE SCIENCES has appointed Mr Neil Archibald as managing consultant for the insurance sector, in the financial services group. He joins from Lloyd's, where he was market services development manager.

Mr Louisa Greenless has joined the BARING INTER-NATIONAL INVESTMENT MANAGEMENT as finance director. He was previously with the Jardine, Matheson Group for 10 years in the Far East, London and the US.

Two appointments have been made to the REVIEW BOARD FOR GOVERNMENT CONTRACTS. Sir Max Williams has been appointed chairman from June 1, and Mr Derek J. Kingsbury, a member of the board, Sir Max succeeds Sir John

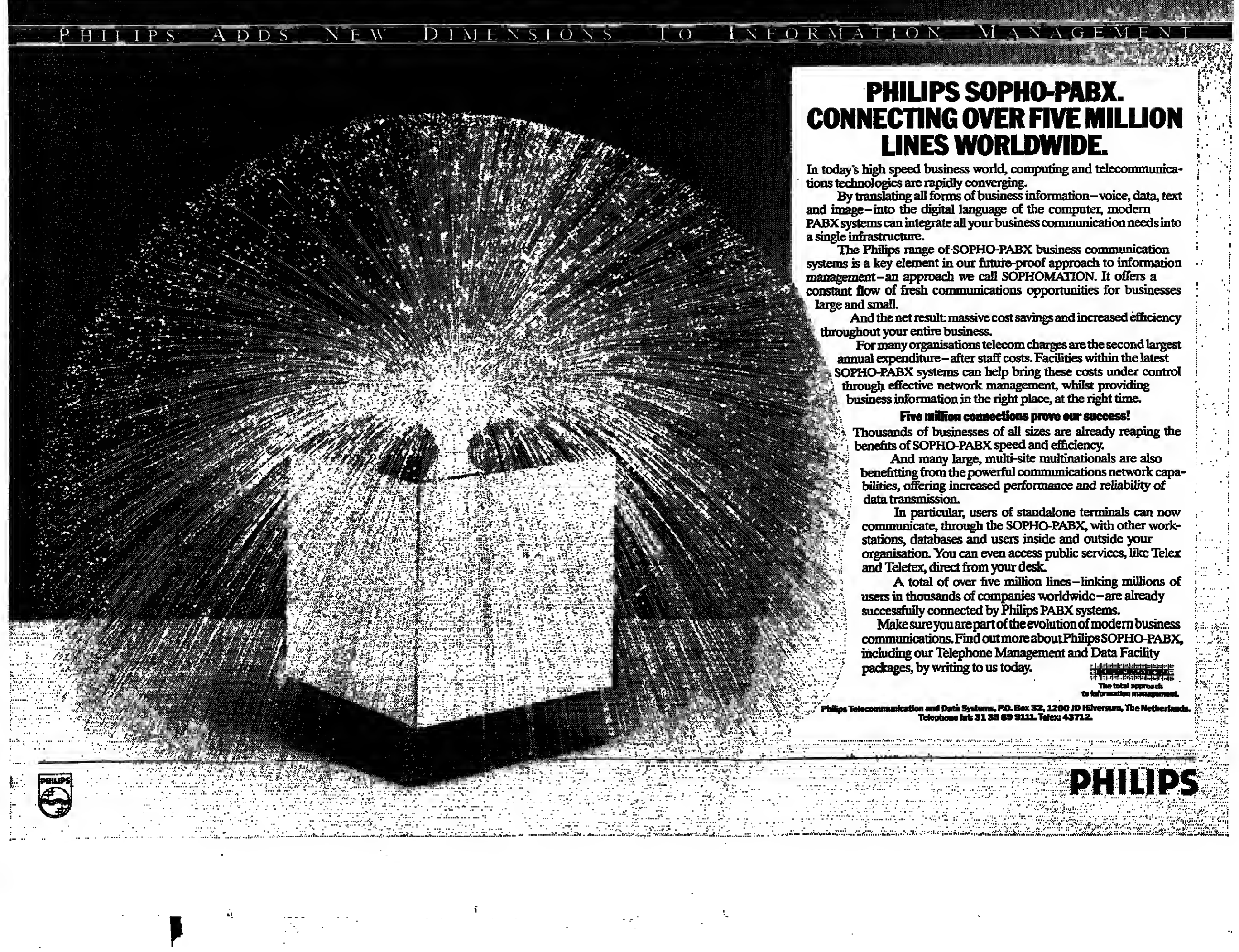
Grenside, who is retiring; and Mr Kingsbury, who has been nominated by the Confederation of British Industry, succeeds Sir Roy Sisson, who has also retired. Sir Max has been senior partner of Clifford-Turner since 1984, and Mr Kingsbury has been chief executive of Fairley Holdings since 1982.

Four new partners have been appointed by RENSBERG of Liverpool, stockbrokers. Three of the partners—Mr Geoff Tym, Mr John Mulligan and Mr Ian Bakewell—will be based in Liverpool. Mr Simon Flather is based at the Leeds office.

THE LONDON INVESTMENT TRUST (LIT) has appointed Mr W. E. Robert Siebmann as an executive director. Mr Siebmann is also managing director of Bailey Shadbolt, LIT's wholly-owned commodity clearing and broking subsidiary in London.

Mr Michael J. Pavia has been appointed group treasurer of LASMO with additional responsibilities for group taxation. He was previously controller, having joined from Price Waterhouse in 1980. Mr Graeme A. Jamieson has been appointed controller, having previously been deputy controller.

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FINANCIAL TIMES SURVEY

Monday June 9 1986

Corporate Communications

EVERY COMPANY or business organisation has an image of itself and what it does. Unfortunately, only rarely is this image effectively communicated to the people who matter—employees, customers, shareholders, civil servants and suppliers.

But there are signs that all this is changing, with companies—large and small—now prepared to spend approaching £5bn in total on all forms of communicating their message to various target groups.

Corporate communications have suddenly become the "flavour-of-the-month" to use the jargon of the communications business, as companies seek to fend off massive takeover bids, persuade local authorities to allow vast shopping centre developments, or soften the blow to employees whose jobs are being taken over by robots.

The crucial need for better communications improved was clearly illustrated by the Distillers takeover saga in recent months. In 1972 a Distillers spokesman was reported as saying: "Our brands are well-known and that's what counts. We don't care if nobody knows Distillers."

Successive generations of financial journalists discovered that the company meant just that.

Some 14 years later, however, Distillers found itself in need of friends when, on the wrong end of a takeover bid from James Gulliver's Ayril Group, in the end the price of saving itself from Gulliver's clutches was to be taken over by Guinness.

Why has so much recent attention been focused on corporate communications? The recession was a key catalyst in concentrating the corporate mind on the problem of reaching target groups. Customers needed to be wooed more than ever before and shareholders kept apprised of the company's efforts to ride out the recession.

Employees needed to be told that their jobs depended on their efforts as never before, while government had to be persuaded to use economic policy

Companies are spending nearly £5bn a year on seeing that their point of view reaches specific targets. These range from shareholders, when fending off takeover bids, to employees being urged to accept important policy changes

Wooing that costs £5bn

By David Churchill, Consumer Affairs Correspondent

to alleviate burdens on businesses.

Companies have since found that more effective targeting of their messages actually works. New media have appeared—such as breakfast television and new newspapers—to widen the communication choices. At the same time developing sectors, such as high-tech industries, have needed to become better known.

"Every management has ambitions for its corporation and some sense of desired direction," says Mr John Martin, chief executive of the Welbeck public relations consultancy. "Corporate communications is concerned with influencing the way the corporation behaves and with communicating the positive benefits of this behaviour to clearly identified public audiences."

The importance of this approach is shown by the consistent findings of market research by MORI that two out of every three people in the UK believe that a company that has a good reputation would not see "poor quality products."

"The bottom line of this attitude is that people are more likely to try a new product from a company they regard highly than from a faceless conglomerate," says Mr Robert Worcester, chairman of MORI. "They are also more likely

to apply to a familiar company for a job, buy its shares, believe its pronouncements, and read its advertisements if they feel they know the company well and have a high regard for it," he adds.

MORI's research has also shown that nine times out of 10 the better known a company is the more likely it is regarded. "That applies not only to the general public but also to institutional investors, brokers' analysts, City journalists, MPs of all parties, editors, final-year undergraduates, captains of industry, and all the other audiences that companies have identified as being important," Mr Worcester explains.

But communications today are not confined to national boundaries. "In communication across the world is getting ever more a village," says Mr Roger Heywood, chairman of a Norwich-based communications consultancy.

"Companies that expect to trade effectively in different countries have to remember that news is instant and recognises no barriers. An accident in one country, for example, can have an immediate impact in another."

As the global village has shrunk in terms of communications it has fostered the growth of global communications.

Satchel, which has grown over the past decade to become the world's largest corporate communications company with interests in advertising, public relations, direct marketing, and management consultancy.

The growth of the Satchel empire has, not surprisingly, encouraged others to try to imitate it, although so far with less success. But the "big is beautiful" approach pioneered by Satchel is not without its critics, who believe that the emphasis on the global may be running ahead of the problems faced by many companies in improving their communications at a more basic level.

criticisms go about improving their communications? One growing concept is the communications audit which, costing up to £25,000, can be a detailed analysis of who thinks what about a company and why.

Mr Reginald Watts, former chairman of Burson-Marsteller in the UK who now runs his own consultancy, believes that the communication audit has become a much misused term. "Many consultants talk to a few press people, telephone an analyst or two, and then interview the board of directors of the client, pulling the best quotes and calling the whole thing a communications audit," he says.

"We have developed a series

of clear methodologies and disciplines that give clients all they need to gain competitive advantage in the market."

What is likely to emerge from such audits—or even their less sophisticated versions? What do our publics think of us and how can we get our message across to them? These are the basic questions facing any company.

Mr Martin, of Welbeck PR, points out that "in assessing its need for corporate communications, each management must examine its areas of strength and weakness."

What, for example, is the industrial relations outlook? What are the probable effects of a factory closure or site move, expansion or contraction, side-effects of new technology or production methods, or threats involving pollution or safety?

There are at least six key target groups that companies need to be aware of and these can be further sub-divided. They are:

- Shareholders and the financial community: to communicate management and financial information, establish credibility, and generate financial support;
- Retailers, wholesalers and others in the distribution chain: to engender confidence in the company's products, services, promotional support, and so on;
- Consumers: to encourage them to use the company's products and/or services and to communicate relevant information about the company;
- Opinion-formers in central and local government: to represent the company's interests in legislative terms;
- Local communities: to improve public relations in the company's neighbourhood, and to help recruitment and staff relations;
- Employees: to help to create loyalty and commitment among the workforce.

Advertising, in the press and on television, is by far the most widely used means of communicating messages to these target groups, but it can sometimes be the most expensive and least effective medium. Basically, the broader the target group the more cost-

TOP 20 CONSULTANCIES

Name of consultancy	Fee income June 1985 (£'000)	Fee income June 1986 (£'000)	Fee income change (%)	12-month period ended 30.6.1986	Full-time staff at 30.6.1985	Change in staff (%)	
1 (1) Good Relations Group	5,700	5,100	-11.7	31.12.85	154	153	+0.65
2 (2) Charles Barker Group	5,650	4,551	-24.1	31.12.85	168	150	+5.0
3 (4) Burson-Marsteller Group	4,323	2,848	-51.5	31.12.85	149	132	+12.5
4 (2) Standwick Group	3,781	2,900	-27.6	31.12.85	112	86	+30.3
5 (5) Dewe Rogerson Group	2,735	2,114	-22.3	31.12.85	120	106	+11.1
6 (7) Hill and Knowlton Group	2,369	1,784	-24.8	31.12.85	90	84	+7.1
7 (17) Communications Strategy	2,278	1,121	-50.8	31.12.85	75	52	+44.2
8 (8) Daniel J. Edelman	2,202	1,610	-27.3	31.12.85	83	60	+36.5
9 (10) Carl Byers and Associates	1,799	1,400	-22.2	31.12.85	65	65	0.0
10 (12) Biss Lancaster	1,665	1,225	-26.4	31.12.85	64	56	+14.3
11 (8) Kingsway Group	1,650	1,460	-11.5	31.12.85	66	60	+10.0
12 (16) Granard Communications	1,612	1,146	-29.0	31.12.85	60	56	+7.1
13 (6) Welbeck PR	1,580	1,085	-31.3	31.12.85	62	58	+6.9
14 (27) City and Commercial Communication	1,482	790	-46.7	31.12.85	55	44	+25.0
15 (20) Vaino Pollen	1,473	1,060	-27.6	30.9.85	134	120	+11.6
17 (11) Harrison Cowley Group	1,464	1,400	-4.5	31.12.85	83	60	+38.3
17 (13) The Ertel Consultancy	1,444	1,260	-12.8	31.12.85	40	40	0.0
18 (18) Streets Financial	1,400	1,100	-21.4	31.12.85	43	52	-17.3
19 (15) Leslie Bishop Group	1,320	1,200	-9.1	31.12.85	52	49	+5.0
20 (14) Countrywide Communications	1,300	1,250	-3.8	31.12.85	53	53	+0.0

Source: PR Week.

effective advertising can be in reaching them.

But as Mr Watts points out, some corporate advertising campaigns favoured by large companies have been the least spent in trying to sort out their own management problems than on communicating on behalf of their clients.

Apart from advertising and PR, the corporate message is also being delivered by other means, including greater emphasis on good design—ranging from letterheads to shopfronts—and direct marketing by letter or telephone.

But as the means of communicating their corporate message becomes more sophisticated and cost-effective, companies should not lose sight of the fact that it is the message—and not the medium—that remains the most important.

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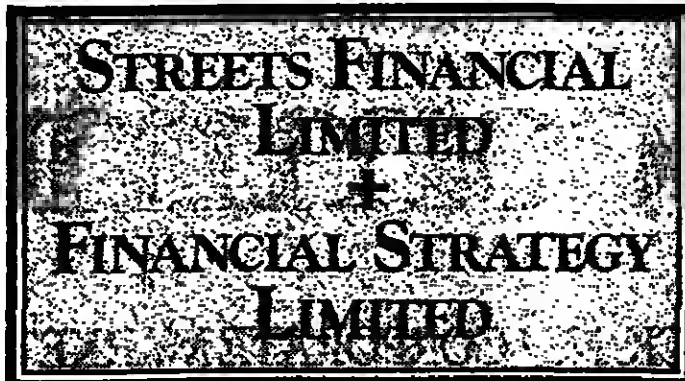
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Corporate Communications 2

Public Relations

More groups ready to seek flotation

BRITAIN'S PUBLIC relations consultancy business — at the sharp end of corporate communications — appears extremely buoyant at present.

More than £540m was spent last year by companies on all aspects of public relations activity and the demand from companies seeking to improve their communications through the use of specialist PR advisers is as yet showing no real sign of decline.

Figures from the Public Relations Consultants Association, the main trade body for consultancies, show that its 113 members reported a 22 per cent increase in fee income last year to top £50m for the first time. Other sources suggest that the total fee income for all consultancies last year, including the hundreds of smaller consultancies, may have reached £100m.

Such growth has prompted a number of leading consultancies to capitalise on this demand by seeking a public quotation, either on the full stock exchange or on the Unlisted Securities Market. In addition, there have been some mergers between consultancies seeking to create larger communications groups.

What has been behind this growth? The key factor was the recession of the early 1980s when many companies cut back on their advertising expenditure but, instead, spend more on below-the-line public relations activity.

PR consultancies were as surprised as anyone by this turn of events, since in previous recessions both advertising and PR expenditure had been cut back. But marketing executives in major companies learnt from that experience that it was harder to win back brand share after a recession and much easier to try to minimise lost share during a recession.

PR was turned to as a more cost-effective means of getting companies' messages across to traditional consumer markets.

At the same time, however, new areas requiring communication skills were opening up.

The growth of technology-oriented companies, for example, was a new source of business for consultancies to use traditional PR techniques to explain the complexities of high-tech to a lay audience.

The booming stock market after the recession — allied to the spate of new issues and takeover activity — gave a fresh impetus to financial and corporate public relations. The forthcoming "Big Bang" — the deregulation of financial services — will further increase demand for those specialist consultancies who have the contacts in the City.

Another factor boosting consultancy growth has been the emergence of new media opportunities — such as breakfast television and new newspapers and the move by consultancies to adopt a more sophisticated approach to meet specific targets within the media.

As a result of this surge in demand there has been, not surprisingly, a restructuring of the sector in recent years.

The key trends have been for larger consultancies to grow through acquisition of small to medium-sized consultancies and, increasingly, to seek public company status to help finance such deals. In addition, some consultancies have decided that linking up with an advertising agency is the best course to stay in the major league.

Good Relations, the largest PR consultancy, was the first to go public — joining the USM in 1981 and the full stock exchange in 1983. Valin Pallen followed on the USM last year and achieved a full listing only in April this year — shortly before it attempted an abortive merger with Good Relations.

Last December saw Chetwynd Streets join the full market, shortly after the Shandwick Group had joined the USM. Addison Page (which as Addison Communications had joined the USM in 1984) last month merged with Chetwynd Streets.

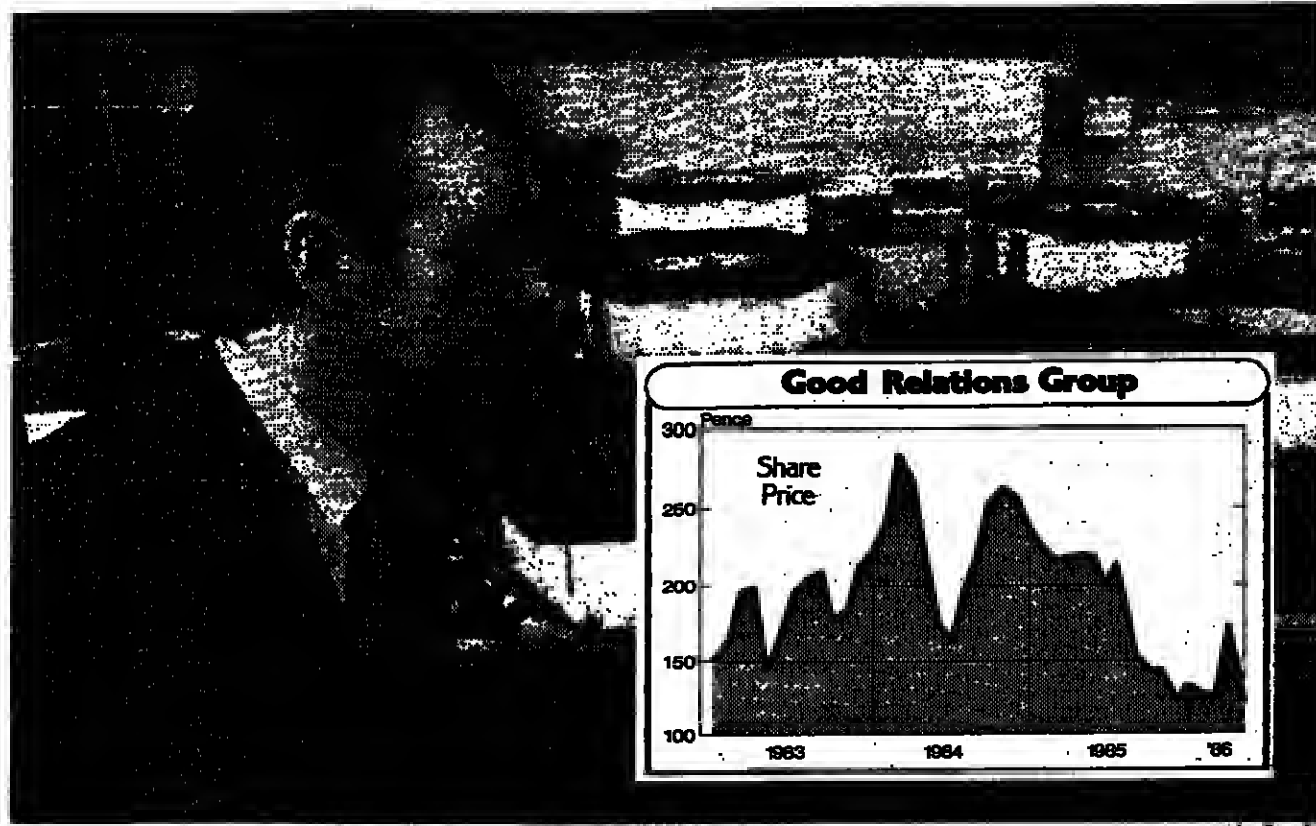
Charles Barker, which claims to be the oldest financial advertising company, was floated on the full stock market last month.

Coming to market shortly are likely to be the Lopex Group and Communications Strategy while a number of other medium-sized consultancies — such as City and Commercial Communications — are also believed to be joining the flotation bandwagon.

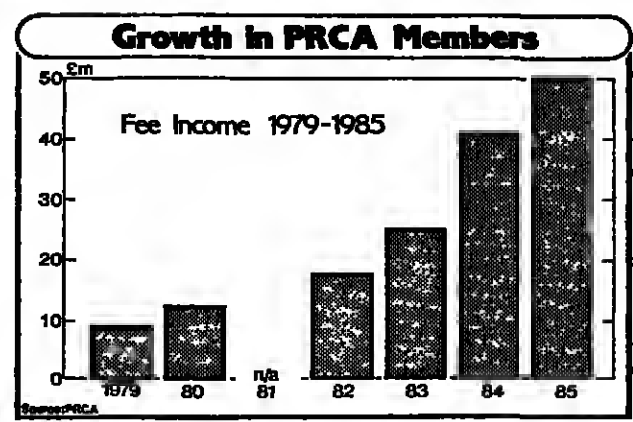
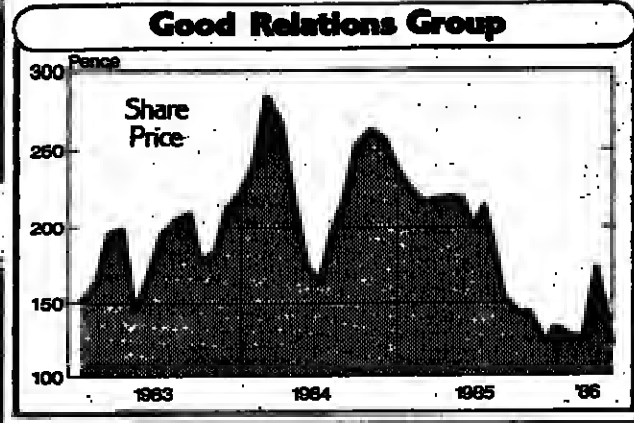
Some of those that might have gone to market have already been snapped up by advertising agencies. Earlier this year Saatchi and Saatchi bought three UK PR consultancies — Kingsway, Grand and GRC Financial — while the Wight Collins Rutherford Scott advertising agency last year acquired the last-growing Bis, Lancaster consultancy in a deal worth up to £6m.

Other consultancies which might have found their own way to market have been bought by those already with a public quotation — the most recent example being Shandwick's acquisition of the Leslie Bishop Group.

Among the major consultancies, moreover, there are a number already part of major US groups. Burson-Marsteller, for example, is owned by the US advertising agency Young and Rubicam, while Hill and Knowlton is part of the J. Walter Thompson advertising group. Foote, Cone and Belding has two top UK PR consultancies in Welbeck and Carl Vyolr and Associates.



Anthony Good, chairman of the Good Relations Group, the largest PR consultancy, was the first to go public. It joined the USM in 1981 and the full stock exchange in 1983



Still independent among the top 10 consultancies are two companies which have so far firmly eschewed public company status — Dewe Rogerson and Daniel J. Edelman.

How long they will be able to avoid either the clutches of either an unwanted takeover or the lure of a share flotation remains to be seen. There is a clear trend towards the idea of "big is beautiful" among PR consultancies as there is among advertising agencies — as evidenced by Saatchi and Saatchi's rise to become the world's leading communications consultancy within a decade.

Mr Steve Smith, joint chairman of the new Addison Page Chetwynd Streets combine, believes that "in a few years' time there will only be three or four global consultancy groups — and we want to be one of them."

But the PR world of the late 1980s is not solely in the hands of ever-growing consultancies. Although a group such as Charles Barker now employs more than 700 staff, the great majority of PR consultancies employ only a handful.

As consultancies grow in size, many are finding that the problems of motivating and managing their employees is a very different business to the skills required for a successful PR campaign. The larger consul-

tancies are under some criticism from clients and others that they are having to devote so much time and resources to running their growing businesses that they sometimes forget the client's needs.

In addition, the difficulty of attracting and keeping effective PR consultants is a major source of worry. Many observers of the consultancy scene believe that standards of PR executives are actually falling, largely as a result of too much demand chasing too few good people.

"Just when there seems a real chance of burying the O'Booze image of PR backdom and securing the giddy goal of being judged an essential discipline, too many practitioners appear to be cutting corners, settling for superficial solutions to current needs, and setting the scene for an erosion of standards," Mr Frank Barnard, chairman of the Extele Consultancy asserted recently.

When Mr Barnard made these comments he came in for criticism from some other consultancy chiefs for "letting the side down" and for "washing the industry's dirty linen in public." Such reactions suggest that the PR industry still has some way to go before it has the confidence in itself to be taken seriously.

David Churchill

Design

Reality must match promise

EVERY COMPANY has a corporate identity, whether or not it has ever employed a design consultancy.

The physical cues to a company's personality, from the lettering on literature, premises and product, to office layout and customer service, are tell-tale signs of its attitude to business.

And, as designers never tire of reminding us, corporate identity goes deeper than a pretty set of new clothes in working to a company's best advantage.

This is why design consultancies insist on lengthy research before ever picking up a pencil. It is essential to stand what makes a company tick, to absorb its culture and know its strategy, its positioning, its goals, before a valid brief can be drawn up. Identity does not come cheap, nor is it transient — unlike most advertising campaigns. It can outlive its makers. So it pays to do the homework.

"We wouldn't start designing for about six to nine months after the day of appointment," says Tom Caplin, of Allied International Designers, one of the country's leading design groups. (Allied has worked on identities for Tootal Group, Lyons-Teley, Standard Chartered Bank, Help the Aged and TSB, among others). "We like to talk to all levels of management, and right down to the cleaners sometimes. The chief executive can give you maybe 90 per cent of the story, but the other 10 per cent comes from other people."

As companies increasingly value a strong corporate identity, there is growing emphasis on evaluation of what is usually a six-figure investment. "It is all about W.I.P.M.," said one American wag. "What's in it for me? How does design work for my company?"

As the focus of communications, corporate identity fulfils a vast number of functions. One endorsement comes from Tootal, fresh from its successful retreat from Estrad. "Our corporate visual identity has played a very important part in staving off the predator," says Andrew Lloyd-Kitchin, group public relations manager. "It would have been near impossible to mount a corporate advertising campaign, such as we had at short notice, without a strong visual identity. Even those who doubted its importance at the beginning now realise this."

Schreiber updated its product range and then (courtesy of Lloyd Northover) revised its lettering on literature, premises and product, to office layout and customer service, are tell-tale signs of its attitude to business.

In cases of company mergers, sensitive handling of the identity can facilitate the union, ensuring that both parties are equally represented. Lyons-Teley and Leicester Alliance showed how.

A change of identity is a way of signalling such changes within a company as diversification, reorganisation, or expansion abroad; and the degree of one must be balanced by the other.

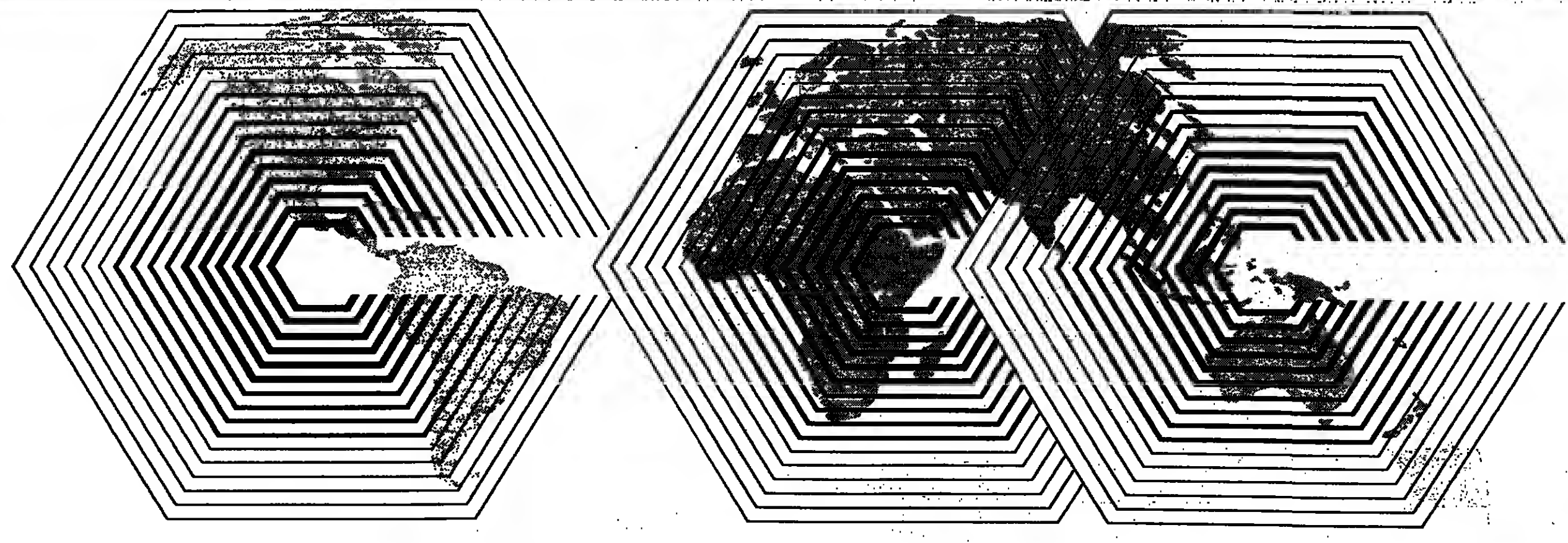
If the reality does not live up to the promise (and the whole identity exercise is a waste of effort: No amount of fine livery or appealing ambience will tempt the customer back if the product and service is a let-down).

"Big Bang in the City" just four months away, with its structural changes in the financial-services sector, is sending a stream of companies in search of new identities. Wolf Olin, one of the country's top corporate design consultancies, reports that, in the past three years, the financial services sector has become its single most important source of new business. The consultancy has handled identity for F.Z.O., Renault, and Midland Bank, among others, and is currently working on a revamp for the Prudential Corporation, signalling its diversification into unit trusts, estate agency and mortgages.

David Vevers, group public relations manager at the Pru, believes that "only those companies with a clear identity, and highly visible products which are easily distinguishable, will succeed in the new market conditions."

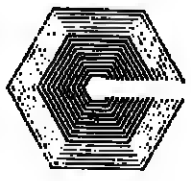
The design world has seen its own "big bang" of sorts. Many a major consultancy (such as Landor Fitch and Co, Wolf Olin Alliance) now field multidisciplinary teams of specialists. Marketers, management consultants and financial specialists work alongside the designers.

Feona McEwan



corporate communications

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Corporate Communications 3

must promise

THE "BIG BANG" in the City — which is what the deregulation of financial services this autumn is now being called — is the latest spur to further growth in the financial communications field.

Already financial communications has become the fastest growing sector of public relations. Apart from the Big Bang, the sale of State assets, new issues, and mega-takeover bids have created unrivalled demands for the skills of financial communications.

Even the possibility of a "bear" stock market in the next few years has done little to dampen the growth of the sector.

In the City, moreover, public relations effort appears to offer greater rewards than pure advertising. "A company, particularly one whose shares are quoted, needs to maintain a continuing dialogue with the business press and with the institutional shareholders who may well own half of the company between them," says Mr Sandy Dewe, chairman of Dewe Rogerson, one of the well-established City consultancies.

Companies which do not undertake these activities find themselves short of funds in a crisis — for example, an unwanted takeover bid — or short of support in major business decisions when making an unwelcome bid for someone else," he adds.

The growth of financial communications has also spurred the activities of some consultancies in seeking a public quotation. The Charles Barker Group, for example, is one of the leading financial advertising and PR groups which came to market last month.

"Deregulation in the City will create more opportunities for consultants," says Mr Antony Snow, chairman of the Charles Barker Group. "Not necessarily competing with the broker, consultancies will be in a strong position to advise analysts and brokers, as well as investors themselves, on ways of communicating."

Moreover, the demand for financial skills is leading to some realignments among consultancies. "Recently, and particularly during the past year, there has been a polarisation among communications companies," suggests Mr Tony Knox, chief executive of Streets Financial Communications, part of the new Addison Page Chetwynd Streets combine.

He believes that three main types of financial consultancy have emerged: small specialists who are expanding quickly because of takeover activity; concerns like Streets which work for companies needing broadly-based services; and subsidiaries of multinational



Left to right: Antony Snow, chairman and chief executive; Stephen Gibbs, deputy chairman; John Page, director of finance; Paddy Murray, director of Charles Barker plc. The growth of financial communications acted as a spur to come to market

Financial Services

Big Bang yields rich harvest

PR companies which belatedly want to join in on the sector's growth.

Financial PR consultancies have come a long way in the past five years or so, even though the sector is still relatively small.

Financial PR was born largely out of the financial advertising industry, and many consultancies still have major links with advertising agencies specialising in finance, but it was staffed in the early days by what one consultancy director rather crudely describes as "financial advertising neophytes."

Certainly, in those early days financial PR consultancies were viewed with circumspection not only by the clients they sought but also by the press. Indeed, the suspicions linger on even today.

The ultimate aim of PR activity in this sector is to ensure that a client's share price accurately reflects the company's underlying trading

performance. This makes it easier to make and defend bids or to raise money on the stock market.

Consultancies help companies to attain market recognition in a number of ways: advising on the form and presentation of financial results and to whom they should be sent; organising regular briefings and seminars and visits to companies; developing individual contacts with the financial and trade press; and keeping brokers' analysts and fund managers aware of developments.

What are the key reasons for the growth in financial communications? The recession that hit the UK late in 1978 encouraged companies to make greater use of PR consultancies as a more cost-effective means of getting their messages across. This was especially relevant for companies anxious to persuade shareholders and customers just what impact the recession was having on their

business. Some City analysts also suggest that the growth of financial PR in the early 1980s helped to keep the bull market going in spite of the severity of the recession.

Equally, once the worst effects of the recession were over, so financial PR was able to keep the key target groups informed about how the recovery was developing.

The impact of recession and recovery, moreover, has also "quite dramatically changed the pattern of business behaviour in this country," says Mr Richard Sermon, chief executive of Shandwick Consultants.

He believes that companies are now more willing to look at their communications and demand a more structured approach. In particular, financial institutions are aware of the need to communicate as never before.

Mr Piers Pottinger, managing director of Good Relations City, also identifies the influx of

financial PR activity arising from multi-national companies entering the UK market and therefore needing to develop their financial presence. These companies, moreover, have imported the relatively new concept of investor relations—PR specifically directed at shareholders.

A decade of the bull market and the advent of the unlisted securities market has also seen a record number of new companies seeking a share quotation. The consequence is that most, if not all, of these companies have sought to smooth their path (not always successfully) by employing financial PR consultancies to strengthen the potential demand for the company's shares.

At the time of going public—whether with a full quotation or on the USM—a company is exposed to the sharpest possible Press, public and City scrutiny. Although no station programme can gloss over mediocre results or the company's financial prospects, well-planned PR can ensure that the financial media and City audiences are fully up-to-date on performance, progress and outlook.

Since Mrs Thatcher came to power in 1979 one of her main aims has been to transfer State assets back to private ownership via the stock market—an objective which has been greeted with enthusiasm by City institutions and financial PR consultancies.

The success of the British Telecom share flotation has, some City analysts believe, created the right public awareness of the potential of share ownership among many more people than ever before. The forthcoming British Gas flotation is expected to need an even more extensive PR campaign—given the complexity and variety of the assets involved—which will be handled by Dewe Rogerson after their BT success.

But it is in the big takeover battles of the past year or so that financial PR has come into its own. PR advisers, once kept outside the decision-making process, now plan an integral role in a takeover defence or attack; and reputations can be won or lost on the outcome.

In the current takeover struggle over Woolworth's, Dillons is advised by Shandwick. Woolworth's, which is fiercely resisting the Dillons bid, is advised by three consultancies: Dewe Rogerson, Paragon Communications, and Biss, Lancaster.

It remains to be seen, however, whether three consultancies are better than one in such a takeover battle.

David Churchill

Advertising

Voice for the company

McGraw-Hill Magazines press advertisement Fifties it features a daunting company executive who asks: "I don't know who you are. I don't know your company. I don't know your product. I don't know what your company stands for. I don't know your company's customers. I don't know your company's product. I don't know your company's reputation. Now—what was it you wanted to sell me?"

Some industries have learnt the corporate lesson. Banks and building societies have shown consistent commitment to pushing the corporate "brand"; "the action bank" and a thoroughbred among banks? Before them, the oil companies knew well the dividends reaped by keeping the public informed can lawyer is said to have defined it thus: "It is a hybrid creature, designed to use the means of paid advertising to accomplish the goals of public relations." Anyway, it is the means for a company to have its say within the rules of honesty, decency, truthfulness and legality, and importantly in the order it chooses to say it.

As such, corporate advertising is a form of protection, an insurance policy, that works among a company's many institutional audiences (from shareholders and employees, to legislators and bankers) to create a safety net against being misunderstood, undervalued or ignored. While no one would suggest it was an easy cure-all for papering over corporation cracks—it is not even easy to do well—it works to shore up public goodwill so should a company hit troubled times, it has a head start over the company that has never bothered to explain itself.

It falls to the chief executive, in the main, to handle corporate advertising, and though learning fast, he is not always the first to recognise its value. The fact that it is hard to evaluate and that it demands a long-term commitment—opinions are not turned round in days or even months—have not helped to convince the sceptics of its effectiveness.

This is changing fast. Recent experience in the takeover market has helped convince doubters that maybe they cannot afford the risk of going without a corporate campaign. Anyone who doubts the efficacy of corporate messages might consider the famous

diminishing differentiation between financial sectors, the need to sell themselves efficiently is pressing.

The professions are learning how to do this after deregulation of their advertising rules. Accountants appear to be grasping the nettle, though solicitors have a long way to go.

Broadly speaking, the targets of corporate advertising can be divided into five groups. Business (that is, customers, suppliers and distributors, associated companies); Government (local, national and international); the Public (media, pressure groups, the general public); Internal (employees and potential staff unions) and Financial (shareholders, stockbrokers and banks).

Corporate advertisements are not easy to do well. "It's very important to get the tone right," says Ray Daffer, central director, public and overseas relations of the Electricity Council which has recently launched its "Electricity for Life" campaign. "Get it wrong and it can backfire on you."

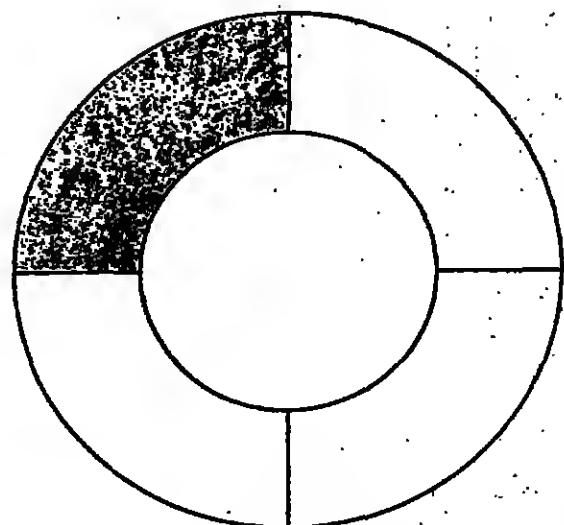
Since one of the first objectives of the campaign (as well as to back customer decision-making) was to boost staff morale (which in turn influences service) Mr Daffer first undertook widespread research into the company image. Staff were involved throughout the making of the advertisements, criticising and approving. Such caution seems to have paid off. Already there are signs of positive reaction from staff. The Prudential Corporation, as it approaches its first ever corporate campaign, has briefed its agency to undertake research three or four months before embarking on any strategic thinking.

Mr David Bernstein, in his excellent book Company Image and Reality, gives some pointers to the craft of writing corporate messages. "Corporate advertisements start with two strikes," he says. "Reader interest is allegedly 25 per cent below the norm for all advertising. The advertisement has to look interesting and hold interest. "Soft" headlines do less well than hard headlines.

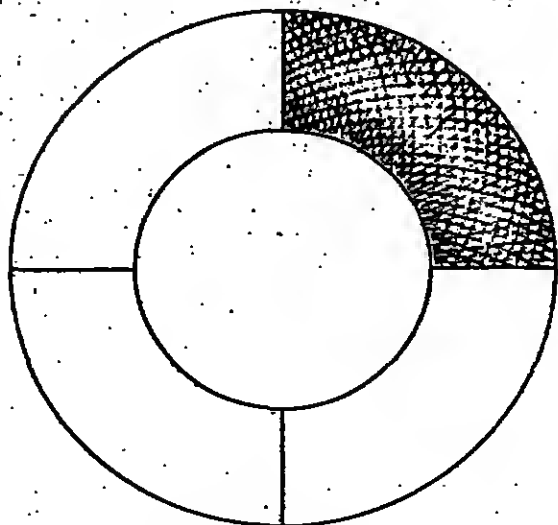
"The best corporate advertisements are active rather than passive, concrete rather than abstract, specific rather than general."

Feona McEwan

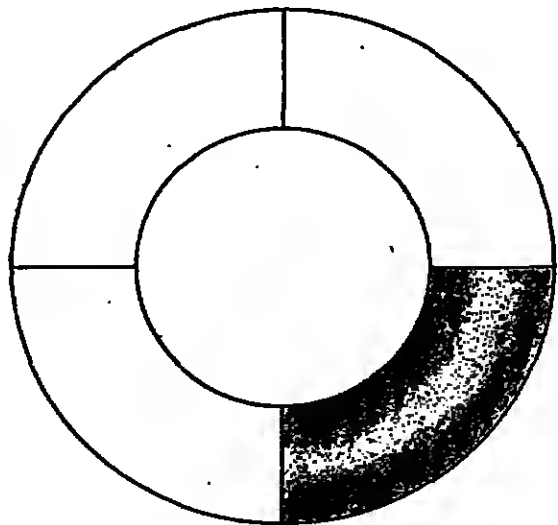
THE WHOLE IN ONE.



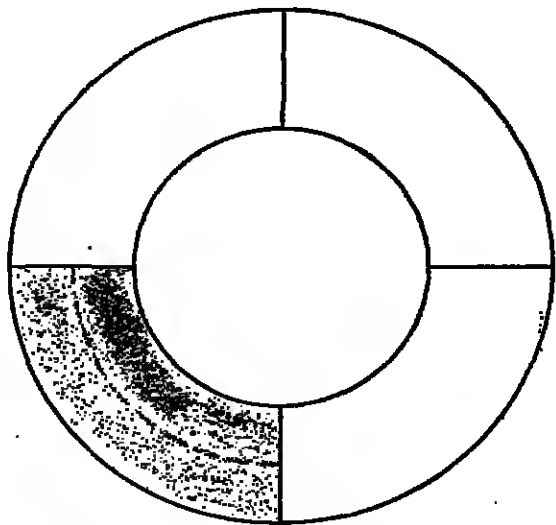
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Corporate Communications 4

Consumers

Identifying the target

TARGETING consumers has, until relatively recently, been the most active part of corporate communications.

While reaching customers and persuading them to buy the products of fast-moving consumer goods manufacturers has long been the main role played by advertising and public relations agencies, such work has been eclipsed by the rise of other fast-growing objectives as high-tech, lobbying, and financial communications.

Now, however, the increasing sophistication of PR consultancy enables them to offer new methods of enhancing traditional consumer advertising with techniques aimed at boosting sales or changing consumers' perceptions.

In one sense, the modern consumer is spoilt for choice with new products and retail ideas emerging all the time. So on what basis is the decision made to choose one particular product or service over another?

Ms Janet Salvini, a director of Paragon Communications which last year won awards for its consumer marketing, believes that the crucial target is consumer attitudes.

"Public relations as a function of marketing support is the one discipline fundamentally concerned with influencing attitudes," she says. "A heavy-weight multi-media advertising campaign will undoubtedly raise brand awareness and a creative sales promotion scheme will ensure impact at the point of sale."

"Ultimately, however, neither will the customer over if his perceptions of the company or product in question are poor."

Ms Salvini adds that for smaller concerns, and particularly when they are competing for a market share against major advertising campaigns, image and consumers' attitudes will often represent the sharpest weapons in their armoury.

Paragon was asked by British Telecom's consumer products division to devise a PR campaign which would encourage people to purchase additional extension phones for their homes. The marketing problem was summed-up in the fact that some 80 per cent of homes already had one phone, so why should they want more?

The strategy for obtaining media coverage was and what can be done about it? That is the key question facing more and more companies which recognise the need for improved corporate communications but do not know how to go about achieving their desired aims with various target groups.

A new concept is now emerging among public relations consultants, and it is a far cry from the "spin and tonic" image of only a few short years ago. This is the so-called communications audit of a company's PR needs and problems.

Unfortunately, like many new business ideas and "buzz words," communications audits have been adopted by some consultants as the latest craze—often without any of the in-depth knowledge needed to make them work.

"Many consultants talk to a handful of press people, telephone an analyst or two and then interview the clients' board of directors, pulling the best quotes before calling the whole thing a communications audit," asserts Mr Reginald Watts, former chairman of Burson-Marsteller in the UK, who now runs his own consultancy, Reginald Watts Associates.

Equally, he adds, "other consultants go out, do a piece



Paragon Communications commissioned outfits designed by Anthony Price to reflect a fashionable image of the British Telecom Inphome Plastic Collection

of the ball," says Ms Salvini. "Or the man who broke a leg falling over the garden hose as he dashed indoors to answer the phone."

The serious undertone to each news report, however, was that the more telephones strategically placed around the house, plus cordless ones for the garden or garage, would have prevented many of these disasters or embarrassments.

Welbeck, another consultancy with extensive experience in consumer PR, was given the task by its client—ICI's Dulux paint brand—to support the launch of Dulux Solid Emulsion.

The paint markets has been relatively static and is fiercely competitive, but the new paint was intended to carve out an 11 per cent share of the brilliant white emulsion market during its first year.

The principal PR objective was to provide a launch platform which generated maximum excitement and interest for the widest possible potential audience before the start of the important home-decorating season.

While media with long lead times were given advance briefing sessions, the main consumer media launch was held in the Hippodrome nightclub and

given a high-tech theme to emphasise the product's technological innovation.

To create visual impact at the launch, a photo-call session, featuring glamorous debutantes in ballgowns, was organised to demonstrate the paint and show that it did not splash. Follow-up techniques included editorial features in regional newspapers.

Welbeck claims that the PR campaign was a total success, provoking much interest and helping Dulux to achieve a 14 per cent share of the market.

But consumer communications can also apply to more glamorous subjects than paint. When Hill and Knowlton won the St Lucia tourism account five years ago, the place was almost un-
heard of and thought to be "somewhere in Spain."

St Lucia had no advertising budget for the UK, so its marketing programme had to carry out any audit requires top management commitment. "It's no good saying 'Let's do one, see what it uncovers and then we'll decide whether we'll disclose the results,'" he says.

An audit is a management discipline and a rare opportunity to get a wide-and-all objective insight into a company's communications opportunities and hazards.

Not all companies need or are prepared to take part in such communications audits. Yet they still need to find and use a consultancy to help them reach their target groups. Many appear bemused at the whole process, however.

There are several basic steps to be taken:

● What is the communications problem that has been identified to necessitate the help of consultants? You should have as clear an idea as possible of which targets you think you should try to reach even before you make the first contact with a consultancy.

● Make use of the available information on consultants to help you to make a preliminary choice. The Public Relations Consultants' Association keeps a list of members specialising in particular types of PR, while the Public Relations Yearbook (published by the Financial Times for the PRCA) lists all major consultancies in some detail.

● At this stage you should try to narrow the choice by considering the options that might arise from using either a large or small consultancy. You could also consider whether—if based outside London—a regional consultancy might be more suitable.

● Then consider whether you

and logo to provide a unifying theme when communicating with its various audiences.

Other techniques included extensive Press contacts, competitions, making a documentary film for showing in cinemas, and keeping the travel trade informed of developments.

As a result, St Lucia has emerged as the most popular Caribbean resort among British tourists as well as being one of the most attractive long-haul holiday destinations.

The objective facing the Daniel J. Edelman consultancy was to make consumers aware of the changes that had taken place in the Wimpy fast-food chain in recent years after United Biscuits, the parent company, had started to revamp the business in the early 1980s.

A substantial investment programme had seen nearly 90 counter-service restaurants built, at a cost of £500,000 each, as the new Wimpy seeks to rid itself of the "greasy spoon" image of the 1970s.

Edelman decided to move Wimpy from its former defensive attitude towards consumers and the media towards a more positive attitude to promote the company's many changes and benefits.

Each opening was given news value to attract media attention, while support activity with a local project or charity ensured follow-up publicity with the message that a Wimpy was not only fun but good for the neighbourhood.

In Liverpool, for example, an elephant parade celebrated the opening of a restaurant owned under franchise by an Indian businessman. In Basingstoke, two schoolchildren became VIPs for the day, arriving in a Rolls-Royce to open the town's new Wimpy.

Both events attracted media coverage. So did fund-raising, which led to the Mr Wimpy character presenting giant cheques to local organisations.

Ms Salvini believes that the message of its success and the company's care and concern for people is now reaching large audiences through increased media coverage both nationally and regionally.

This variety and flexibility of techniques in reaching different consumer groups is, says Ms Salvini, one of the strengths of consumer PR.

"Whatever form it takes, however, a co-ssive strategic approach to consumer public relations will deliver very real benefits in terms of developing, sustaining or even changing completely consumer attitudes which ultimately determine success or failure in the market place," she adds.

David Churchill

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Audits Step-by-step guide

of opinion-leader research—often using a market research company—and call that a communications audit." Mr Watts says that "this type of sloppy terminology debases the currency, disappoints the client, and destroys our credibility."

The type of audit carried out by Mr Watts, who is the acknowledged industry "guru" on this subject, and his colleagues is a highly technical exercise, often costing up to £25,000 for a full corporate "positioning" audit.

Interviews with target groups are carried out against an agreed list of topics by PR professionals who apply subjective judgments at each stage. The replies are analysed to assess where recurring phrases and words are used about the company.

A technique called the "Preferred Strategy Plan" is then used. Four or five different positioning strategies are developed based on an assessment of the company's coverage, public speeches by senior managers, printed material, and market research.

These strategies evolve against the corporate personality and internal culture of the company compared with the external perceptions and its competitive strategy.

"Such strategies are then checked against the likelihood of whether we can communicate that 'positioning' by normal advertising, sponsorship, public relations in below-the-line techniques," adds Mr Watts.

The final objective of a modern corporate communications unit, he believes, is to establish the client company clearly in its market, so that if its image is monitored through normal market research the responses will be those the client wants.

A communications audit is not an enterprise to be undertaken lightly, however. "A client needs guts to embark on

an audit if he thinks his communications situation is poor," says Mr Frank Barnard, chairman of the Extel Consultancy.

Interviews uncover unpleasant truths and wounding misconceptions.

In addition, he believes that carrying out any audit requires top management commitment. "It's no good saying 'Let's do one, see what it uncovers and then we'll decide whether we'll disclose the results,'" he says.

Not all companies need or are prepared to take part in such communications audits. Yet they still need to find and use a consultancy to help them reach their target groups. Many appear bemused at the whole process, however.

There are several basic steps to be taken:

● What is the communications problem that has been identified to necessitate the help of consultants? You should have as clear an idea as possible of which targets you think you should try to reach even before you make the first contact with a consultancy.

● Make use of the available information on consultants to help you to make a preliminary choice. The Public Relations Consultants' Association keeps a list of members specialising in particular types of PR, while the Public Relations Yearbook (published by the Financial Times for the PRCA) lists all major consultancies in some detail.

● At this stage you should try to narrow the choice by considering the options that might arise from using either a large or small consultancy. You could also consider whether—if based outside London—a regional consultancy might be more suitable.

● Then consider whether you

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Corporate Communications 5

Investors

More soundings by boardrooms

FEW BOARDROOMS in Britain can rest complacent that they will not be the target of an unwelcome takeover bid.

The increase in the level of takeover activity—and the size of some of the bids that have fallen—has shaken senior management into a careful reappraisal of their communications with shareholders. The result has been a rapid growth in investor relations activity, an aspect of corporate communications which is well established in the US but is relatively new in the UK.

Investor relations is a crucial extension to the more general financial PR programmes which companies implement. It adopts many of the same techniques but targets its communications more specifically and directly to the investment community. Investor relations includes communications with the financial press and with investment analysts as the two most important sources of investment advice, but then goes much further, encouraging companies to take a direct responsibility for all aspects of its communications with shareholders and potential investors.

In the US, a much higher proportion of the population owns shares and takes an active interest in their investments. Shareholder registers are much looser and the scale of investor relations activity much higher. Most US corporations will have an Investor Relations Executive whose task is to ensure that shareholders and potential investors have a proper understanding of the company's financial position, corporate strategy and future prospects—an appreciation

which they hope will then be reflected in a fair valuation of the company's shares on the stock market.

UK shareholders, in contrast, have, until recently, been a docile group. A few characters turn up regularly to the annual general meeting, until the chairman is able to recognise them by name. A couple of directors, usually the chairman and finance director, will accept invitations from firms of stockbrokers to meet a handful of their institutional clients over lunch.

Occasionally, a more formal presentation might be given to a larger gathering of institutional shareholders but that, by and large, has been the extent of investor relations activity in the UK. The picture is changing rapidly, however. Institutions are under great pressure to maximise the performance of the funds they manage and take an increasingly active interest in their investments. They will even consider ousting a chairman or chief executive who is judged to have failed in his duties. The recession left many companies with stock market valuations significantly below asset value and the spite of takeovers, with offers at a large premium to the market price have often been difficult for shareholders to resist.

At the same time, the Big Bang is radically changing the way the City operates, opening up the financial markets to a greater degree of competition and introducing many powerful new international players. The realignments and mergers between powerful financial institutions are leaving many companies uncertain

to how their traditional relationship with their financial advisers will develop.

The introduction of negotiated commissions in October is expected to result in a tighter market with shares in the largest companies being traded globally and competing with similar companies quoted on other stock exchanges around the world. There will be fewer market makers in the remaining 2,000 quoted stocks and so the companies will have to assume a greater responsibility for their own direct programmes of communications with investors.

Whether a company is in the first or second tier of the stock market, there are certain investor relations activities which they should all implement. Firstly, it is necessary to undertake a careful analysis of the shareholder register which is then updated regularly. The analysis would include a list of the major institutions, a monitoring of significant share transactions and a list of the largest quantities of stock.

A carefully designed City research study should be undertaken to discover levels of awareness about a company, which can then be repeated, probably annually, to track any changes in investor attitudes.

With the shareholder analysis and research completed, a company can then prepare a well targeted investor relations programme which maximises the use of valuable management time. Obviously it is impossible to meet directly with every shareholder but a company can certainly ensure that during the financial calendar it meets with the appropriate fund managers responsible for all its major shareholdings.

If a company is going through a particularly active period or feels there has been a significant change in corporate strategy which needs to be conveyed to a wider investor audience, it will need to organise a more formal presentation to investors, a roadshow, which can be taken to the major financial centres, not only in the UK but in overseas financial markets. A company expects there to be considerable investor interest.

Investor relations activities tend to focus on communication

with institutional investors, because of their greater concentration of shareholdings. However, the private investor is also included in any investor relations programme. Some companies focus on the aim as the most ideal opportunity to communicate directly with the small investor and respond by putting on a presentation about the company's performance during the year to supplement the information contained in the annual report.

The annual report is probably the most important communications tool that a company has. An important aspect of any IR programme would be to ensure that the annual report is well designed and gives a clear picture of the company's key developments during the year in the operational review, and that the financial information is laid out clearly.

This can be supplemented during the year with other communications such as letters to shareholders or a newsletter which gives an update of recent corporate developments of interest to investors.

Another important aspect of investor relations activities is the actual programme of communications is to prepare contingency plans in anticipation of a period of significant corporate activity, particularly a major merger or acquisition. Such events when they do happen, move very fast and require huge amounts of executive time.

There are a number of steps which can be taken however, to improve the company's state of preparedness. These include ensuring listing particulars are up to date and undertaking a detailed review of a company's performance over several years to have ready all necessary facts and figures that need marshalling to support an argument.

In itself, an investor relations programme cannot guarantee a higher share price or continuing independence if a company's performance does not justify either. However, a well planned investor relations programme can ensure that investment decisions are taken against a proper informational background. And this is especially true in the process of efficient capital formation.

Alison Hogan

Employees

Team briefing makes its mark

PEOPLE WORK better if they are kept adequately and properly informed. Industrial relations can be enhanced if there is a successful information flow between management and workforce. Even bad news is more likely to be accepted if it is communicated through channels which are trusted.

Advocates of employee communications make all these claims in support of their belief that the properly organised provision of information is a particularly important feature of business life. But like so many apparently obvious ideas, it has to be implemented skilfully.

Only a minority of employers would take public pride in deliberately not keeping their employees informed of developments. But under the traditional means of doing so, miss enormous opportunities and can be counter-productive.

The starting point for all positive employee communication strategies is that work forms a part of people's lives. They deserve and want to be properly informed about issues which affect them and their employer. And employers need to keep workers informed because people will work for their best—and most profitably—only if they feel that their contribution really counts towards the success or failure of the organisation.

Employers who seek to improve their internal communications often begin by commissioning attitude surveys. These provide information about the outlook of employees towards selected issues, including existing communications strategies, and identify areas where priority action is necessary.

The methods then adopted for improving internal communications vary with the size and style of an organisation. Many larger employers invest considerable resources in company newspapers, and are finding increasingly that these must allow for the open and balanced treatment of controversial issues to avoid the risk of the publications being regarded by staff as "management propaganda."

Another large-scale com-

munications method which is growing in popularity is the tailor-made company video, typically to explain the annual results in a large organisation.

Many companies have found, however, that even the best written or videoed reports have to be supplemented by further action. This has led to a growth in consultative committees and more ambitious variants like quality circles.

Another increasingly popular method of communications is team briefing.

Under a team briefing system, managers and supervisors keep employees informed of developments within the organisation through regular small group meetings.

The Industrial Society has played a major part in developing team briefing techniques in British industry, and offers help in structuring systems and one or two day training courses for briefers.

In the society's experience team briefing brings varied benefits including less misunderstanding about why developments are taking place, increased co-operation with change, improved commitment from employees, reinforcement of the role of management and a reduction in the chance of damaging rumours spreading.

Employers are sometimes concerned that team briefing, and other communication techniques, might meet opposition from trade union representatives and cause industrial relations problems. There is a danger of unions believing that company communication tactics are an attempt to by-pass or influence established negotiating procedures.

The Industrial Society says that from its experience, however, most trade union representatives welcome their members being well informed, and that briefing does not undermine trade union communications and representation rights.

Another Industrial Society initiative during Industry Year is a campaign to encourage companies to communicate to employees information about the importance of industry to wider society. This includes trying to create a greater sense of common purpose within organisations—with improved communications again playing a crucial role in bringing this about.

The concept of common purpose is essential to the successful outcome of any company communications strategy. No amount of sophisticated information cascades will make full impact on employees who feel distant from the main aims and objectives of their company.

Alan Pike

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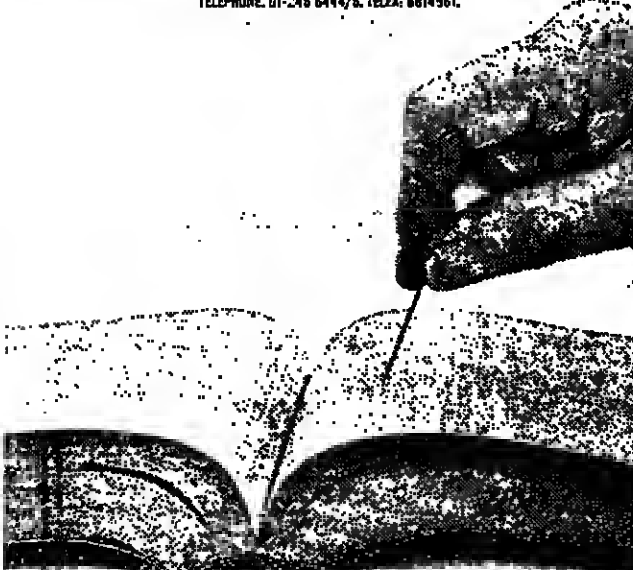
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Lobbying

Word in the right ear

THERE CAN be no company in the country that is not alive to the importance of the machinations of central and local government, even multinational government (EEC), in influencing profitability. As a result, political advice, or lobbying, to employ the American format, has become one of the great growth sectors of public relations.

It would be a modest PR company that did not offer its clients some assistance in this field, even if the assistance consists of little more than a "no comment" card when needed to arrange lunches at the House of Commons or to offer guidance on parliamentary procedures.

But, virtually everyone involved in the maze of the complex and muddled area now agrees that the old-fashioned approach is almost useless. There are specialist companies, like Public Policy Consultants, a group of 16 individuals who have all had experience of working in Whitehall or Parliament, which believes that the traditional PR companies just cannot begin to understand how to influence government.

For PPC the task is to try to identify the key figures, usually civil servants, before any proposed legislation has reached ministers. In-tray. Most lobbying campaigns are doomed to failure because the machinery of government is rolling, and is then all but impossible to stop.

Yet some traditional PR companies have been remarkably quick to adapt to the political challenge. The Government's most surprising defeat this year was over the Bill for Sunday trading. Extel, a mainstream company which offers parliamentary PR as just one part of its service, set up the campaign against Sunday trading and then persuaded all the varied opposers, from the Church of England, through the shop-workers unions, to retail trade bodies: to choose it to co-ordinate the defence for a fee.

Unlike many conventional campaigns, Extel bothered little with contacting MPs at the House; instead it arranged meetings with them in their constituencies where they were left in no doubt as to the strength of local opposition. After around 250 such meetings enough Conservative MPs got the message. Even so Extel would not claim that it killed the bill. "We helped to make it a live and contentious issue; we did not defeat the Government."



local government, the EEC, or Whitehall, which might have an effect, positive or negative, on their business. Such an intelligence service can be bought for a few thousand pounds a year; it should act as an early warning system.

At one remove from this monitoring programme is the supply of information to MPs, keeping them up to date with the progress of companies in their constituency, or in industries in which they are known to take an interest. Much of this data probably ends up in the waste paper basket, although it will at least appear at lunches or cocktail parties organised by PRs to make their client's case.

There are especially in the current Parliament with a huge government majority, the importance of the individual MP is very limited. A young Parliament would give political PR a tremendous boost: in the short term they are concentrating their attention on Whitehall, where the major decisions are made.

Civil servants are slowly emerging from their shells, and are not averse to being lobbied. It is here that the newer generation of political PR consultants think they have the edge on their older rivals with their ties to conventional MPs, often one Tory, one Labour, perhaps a member of the Lords; and an ex-employee of Central Office. Undoubtedly, the returns from organising tea on the terraces are likely to be limited to the client feeling that he has been close to the corridors of power rather than the achievement of any effective putting of his case in Parliament.

There are perhaps half a dozen consultancies staffed by youngish people who grew up inside politics and who think they know the right strings to

pull at the appropriate time. All from PPC they include GJW and Sallingbury.

Then there is the generation of slightly more mature specialists, including Political Communications and David Wedgwood. And, in profusion, the major PR companies who are proud of their political work, such as Charles Barker, Watney and Powell, and Good Richards.

The PR companies can all quote examples of where their intervention has benefited clients. For instance, Wedgwood's lobbying which perhaps deterred the Chancellor of the Exchequer from imposing VAT on books and newspapers. This shows the advantage of getting in early, similar cases are attempted to persuade the Chancellor to remove the VAT which he had already announced he was levying on "take-away" foods, failed because ministers are reluctant to be seen to be bowing to outside pressures.

The advent of a Labour Government, or a hung Parliament, should produce much more work for PR companies; but it could also inhibit their operations. Parliament is very suspicious about the growing visibility of "strangers" inside its walls, and that includes the PR consultants.

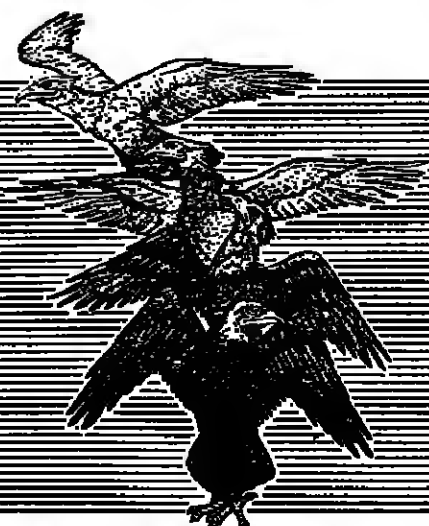
Last year a House of Commons committee investigated MPs outside interests but, rather surprisingly, came up with no important recommendations: MPs are still under no commitment to declare their links with PR companies. There have, in fact, been few scandals in recent years but an interventionist Government is likely to demand more light on sometimes murky links.

The other development is the arrival of pressure groups, and special interest lobbies. Traditional companies will still need advice, but more clients are likely to be trade unions, local government authorities, campaigners for Channel Tunnel contracts, or for work on new airports, consortia anxious to get the ear of Government. This is one area of PR where the old-fashioned techniques and approaches seem to be fast getting out of date.

Antony Thorncroft

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THE MANAGEMENT PAGE

EDITED BY CHRISTOPHER LORENZ

Rolls-Royce Motors

Pulling slowly out of a patrician past

Nick Garnett on the UK car maker's search for more open management

"PRIDE OF Britain, envy of the world." So trumpets one of the many adverts for the pieces of costly hardware that roll off the line at Rolls-Royce Motors. The words ring with that mixture of subdued chest beating and quiet arrogance typical of the purveyors of fine motor cars to Britain's Royal Family and the world's very rich. Municipal signs transmit the same message: Home of the Best Car in the World. It is a patrician past that Rolls-Royce's home town of Crewe, in the north of England, has lived on for more than 100 years. Not so long ago these slogans were looking very ragged. At the end of 1983 the manual workforce at the company's production site in the Cheshire industrial town walked out for the first time in 23 years. Car sales had tumbled from more than 3,300 in the late 1970s to 2,300 that year. In the wake of this, short-time working, low pay rises and hefty redundancies had proved too much for the workforce.

What struck observers most was not that the 2,800 shopfloor workers donned tools for five weeks. It was the sullenness outside the factory gates and the animosity towards the company hubbubbing to the surface in every conversation.

Something was very wrong in an enterprise where resentment sought such expression and where the management had conspicuously failed to carry the workforce with it during a very difficult period of the company's life.

"There's a true class system which operates right through the plant," one senior shop steward said on the picket lines. It was as if the plant's social structure mirrored the society into which Rolls-Royce sells its still partially handbuilt cars.

But if dated personnel systems had at last caught up with Rolls-Royce so had its rather outmoded manufacturing methods which had loaded up the company's cost base and to which both management and the workforce had colluded.

Something had to change, not least because people were no longer falling over themselves to buy a "Roller" or Bentley. Some company chairmen who sacrificed a Rolls during the darkest days of the recession have not returned to the fold.

Yearly sales at 2,400 remain more than a thousand below predictions made two years ago and look puny against the burgeoning ranks of millionaires. There are a million \$ millionaires in the US alone. Second-hand values too are no longer the hedge against inflation they once were.

As a result, Rolls-Royce, a Vickers subsidiary, has been forced to take a long look at itself and try to begin the transformation into a marketing rather than production led company, more willing to cut out its inflated manufacturing costs, replace ineffectual pay systems, address the problem of workflow in the company's complex machine shop and modify its culture.

Traumatic
Some of this was on the way before the dispute but that traumatic event, dragging a company whose rockbed was loyalty through some sticky if shallow mud, encouraged the pace to change. The task of leadership has fallen to Dick Perry who came to Crewe in 1982 from the Mulliner-Park Ward coachbuilding business (building bodien for the lowest volume Rolls-Royce models like the Corniche and Continental) and who took over the reins as chief executive two years later.

There are now other "outsiders" in key positions, notably ex-Peugeot Talbot man, Peter Ward, managing director for sales and marketing, and Mike Dunn, the engineering director from Ford. Perry himself is a former managing director of what was Leyland Cars. Thus the old patrician flavour of management has been at least diluted. George Fenn, Perry's predecessor who took early retirement in 1984, was once described by George Ellis, the plant convenor, as an absolute gentleman, but was hardly ever seen on the shopfloor.

Change is coming only slowly and slower than some observers believe is necessary. But change there is.

In the past two years a company-wide bonus on output has displaced a piecework system the management concedes never worked properly since Crewe

started up as an aero engine plant in 1933. Pieceworking needs the sort of organised workflow Rolls never possessed. A worker who cannot meet targets because of organisational chaos in the supply of components on the shopfloor either fails to receive the bonus or browbeats a quiet management into getting the money anyway.

At Rolls the payments were made, the system—never suited to the building of a car with so many fiddly little pieces—was abused day in, day out.

Paying out an average £13 a week the new system has helped even out a notoriously lumpy stop-start rhythm in workflow. "We had to find a method of payment better able to adjust output through changes in pay levels rather than through numbers employed," says Peter Hill, director of personnel and systems. Bonus payments are now made on actual output.

The large machine shop which was characterised by indiscipline organisation more fitting to a jobbing engineer, and the stores and assembly areas, are getting a taste of workflow systems and computers. Now being introduced with the help of outside consultants, these should be up and running by the end of next year. The intention is to get the right bits to the right place at the right time and provide the information that tells everyone that is happening.

That will help the company generate a steadier pulse in its manufacturing and improve forecasting. Among other benefits it will allow Rolls at least to tabulate how much inventory it holds, a piece of information not yet in the grasp of its managers.

Much of this has come as something of a culture shock. Modern workflow systems "contradict every culture here," says Hill. Manufacturing at Rolls-Royce is carried out in a rather loosely organised way; shortages of in-house manufactured components was usually overcome by foremen willing to cajole others to break off from what they were doing. No matter what the cost in disruption, to manufacture a one-off piece,

handmaking radiator grilles and using 11 hides of leather and 8 sq ft of hurr walnut veneer in each car. A third of the workforce has been with Rolls-Royce for more than 20 years and a more open style of management is foreign to many of them.

Traditional management and workforce conservatism will inevitably remain a strong motivator in the behaviour of a company whose products move on the line only once an hour. Thirteen unions—the Amalgamated Union of Engineering Workers is by far the largest—are still represented on the shop floor. Job demarcation is also still pronounced. "If I had to talk about diluting demarcation now with our members I'd be out of office," says Ellis.

A joint management union team is also looking at the difficult question of pay differentials which remain an issue at Rolls-Royce. Labourers earn on average £135 a week with bonus, skilled machinists £175, and foremen £228.

"We are right in being cautious no matter how much you want to get on with things," says Perry.

Jack Goodwin, the longest serving employee with 45 years' service in 1984, had a ride that year in one of the Rolls he helps make as part of a company scheme introduced to give all employees a drive in one of its cars. The scheme does not allow them actually to drive the cars of course. The company insists on providing a chauffeur.

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Richard Perry: "We have to change with society"

Bob McIntock, the half-jocular, half-exasperated machine shop manager, says the system runs on "instinct, impulse and energy" right now rather than by method.

"The whole of society is changing and we have to change with it," says Perry. Deeply entrenched and frequently acid divisions between foreman and lineworkers who, until recently, were required to eat in separate canteens, between manual and staff employees and between rather remote directors and the shopfloor are being partially removed. One self-service cafeteria now replaces three levels of canteen. Shop stewards and foremen are sent off together on training courses, an unheard-of approach in a once tightly-stratified company.

The consultation system introduced by David Plastow when he was head of Rolls-Royce during the first half of the 1970s before taking over as managing director and chief executive of Vickers, has also been widened into more of a dialogue.

Plastow pays tribute to the present management; it has accepted that the pressures on the company have tightened, thus spurring change for the better. It is using some systems which were either not around in the 1970s or which a successful company sailing all it then made could afford to ignore.

It can only be change of a type, though, for a company that still takes pride in polishing the Spirit of Ecstasy mascot with powdered cherry stones,

handmaking radiator grilles and using 11 hides of leather and 8 sq ft of hurr walnut veneer in each car. A third of the workforce has been with Rolls-Royce for more than 20 years and a more open style of management is foreign to many of them.

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A joint management union team is also looking at the difficult question of pay differentials which remain an issue at Rolls-Royce. Labourers earn on average £135 a week with bonus, skilled machinists £175, and foremen £228.

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Personnel selection

How to spot a performer

Jerome Burne reports that the correct approach can save money

BRITISH COMPANIES are wasting large amounts of money and being saddled with unhappy personnel through hiring the wrong people. Not only that but they are ignoring a number of techniques that could help them to find the right ones.

That is the conclusion of a paper published last month in the Journal of Occupational Psychology by Dr Ivan Robertson and Peter Makin. They sent questionnaires to a third of the companies on the Times 1000 list asking them how they selected their employees. By far the great majority of the 86 per cent which replied said that they used only interviews plus references, both of which have been consistently found to be very poor ways of predicting how well someone will subsequently perform.

Stories about the arbitrary nature of interviews are legion. One large tobacco company has a director who only asks prospective senior managers one question: "Are you interested in DIY?" Those who are fall. Such methods make for good anecdotes but they could be costing the company a fortune.

Robertson, a lecturer in organisational psychology at the University of Manchester Institute of Science and Technology, describes how psychologists have recently developed something called utility theory which allows companies to put a monetary value on the cost of hiring wrong people. This is usually about 10 times more than the additional cost of setting up a more sophisticated selection procedure.

In one example he gave of an imaginary firm with 12,000 employees, which made 415 per cent more a year, the saving from doubling the efficiency of the selection procedure was estimated at £995,000 set against a cost of £77,040 for the assessment programme.

Psychologists have now developed several methods which are really quite good at predicting how well people will do at a certain job," he says. "They are at least twice as accurate as gauging from an interview and used together they can be three times as good but they are just not being used."

References, for example, can be improved by asking people factual questions, but this is rarely done. "People are happy to fudge when asked to write generally but they are less likely to tell a blatant lie when asked a direct question."

Another method is the personality test, used by only 4 per cent of respondents. This involves first giving personality tests to all the employees already doing the type of job for which there is to be further recruitment and then picking out the personality profile of the successful people in that job.

This can sometimes throw up surprising results. Accountants, for example, were found most commonly to have the following characteristics: warm hearted and easy going, prudent and serious, not socially hold and more experimenting than conservative. Candidates with these qualities, therefore, would be worth special attention.

On its own it is better than the interview but not as good, however, as the cognitive test—better known as the IQ test. Whatever had reputation it may have gained during the battle over comprehensive education, it is actually quite a reliable predictor of how well a person will perform in a certain job once the requirements of that job have been clearly defined.

Psychologists have constructed a scale from 1 to 0 to describe how reliable these tests are at predicting who will do well. 1.0 means a method

that is right every time while 0 indicates it is no better than chance. The interview has been found to score 0.2 — which makes it only slightly better than tossing a coin — while the cognitive test is 0.4.

This is about the level achieved by the so-called biodata technique, whereby a person fills in a questionnaire about his or her life style and attitudes — certain patterns emerge which are associated with doing certain jobs well.

The "deluxe" method of selection is the assessment centre. This may use a combination of the above methods plus what is known as testing on "core features". The essential elements of a job are pinpointed and then the applicant is asked to perform them. "For example," says Robertson, "lecturers are often appointed on the basis of their research rather than whether they can lecture. So we ask them to give a short one. It sounds obvious but it's amazing how rarely it is done."

What all these methods require is some degree of psychological expertise to administer and assess the tests. Robertson denies that he was simply mounting a job creation scheme for occupational psychologists. "We can now say that if firms take our advice they will be more efficient and have a more psychologically healthy workforce. They also benefit from having to define more closely just what it is that they are looking for."

Interviews are still widely used because they are the simplest and the cheapest and do not require any outside involvement. Also, unlike the Americans, the British are still a bit wary of what they see as scientific hocus pocus. One firm in the survey wasn't worried about hocus pocus, however — it used astrology.

August 3-9. Fee \$360 (to include dinner and cruise). Details from George Little Management, 2 Park Avenue, Suite 1100, New York, NY 10016. Tel: 0101 212 636 0970. Tax and benefit planning for personal pensions. London. July 1. Fee: ESC members £156.40; non-members £184. Details from European Study Conferences, Kirby House, 31 High Street East, Uppingham, Rutland, Leicestershire LE15 9PY. Tel: 0572 822711.

Fee: £75. Details from the secretary, Management Programme, Brunel University, Uxbridge, Middlesex UB8 3PH. '86 Computers in personnel: From potential to performance. London, July 8-10. Fee: £190 + VAT. Details from Legal Studies & Services, IBC House, Canada Road, Byfleet, Weybridge, Surrey KT14 7JL. Tel: 0823 55244. First steps to assertiveness: an introduction to the skills of self assertion. London, July 15.

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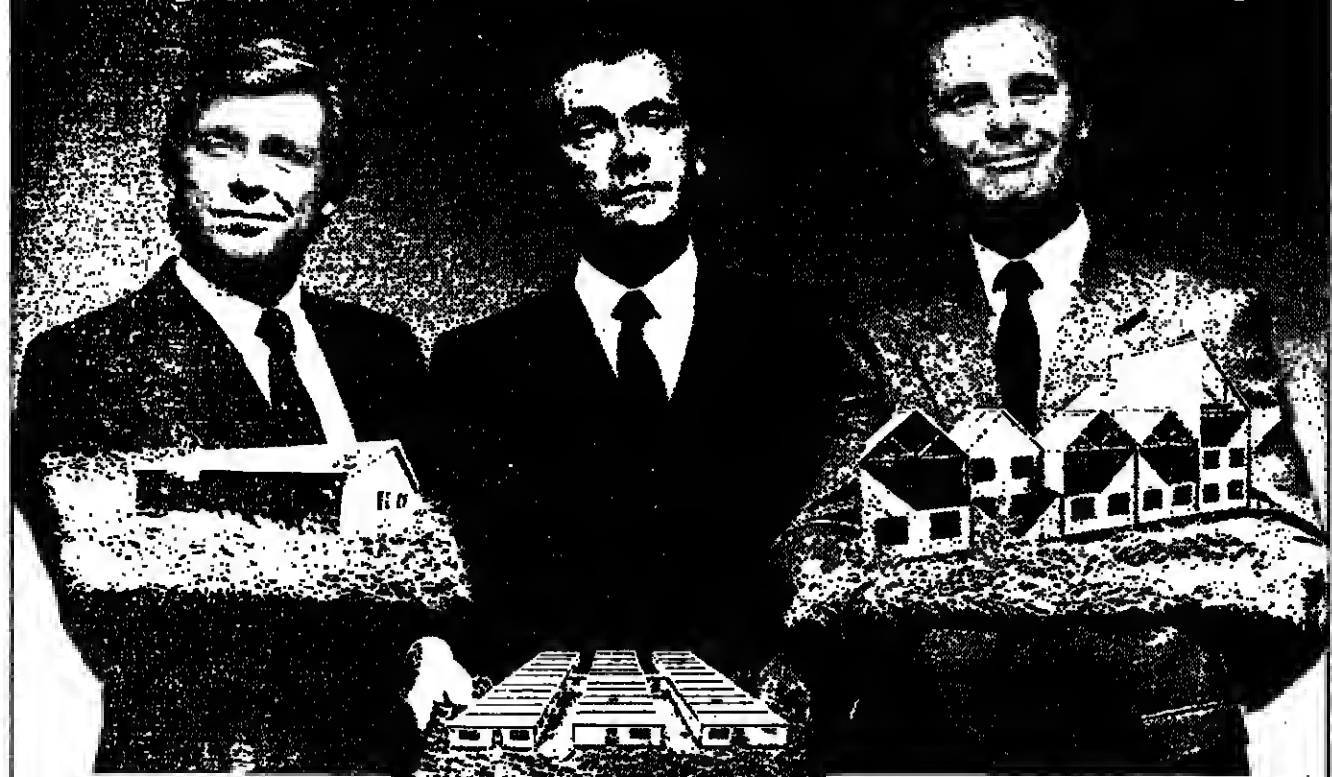
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Mergers and acquisitions: strategic tax and accounting issues. London, July 18. Fee: £190 + VAT. Details from Legal Studies & Services, IBC House, Canada Road, Byfleet, Weybridge, Surrey KT14 7JL. Tel: 0823 55244. First steps to assertiveness: an introduction to the skills of self assertion. London, July 15.

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Architecture/Colin Amery

Stockley Park reclamation is important pointer

The building in the park was once the apogee of British architectural and landscape achievement. In the 19th century there seemed to be a profound understanding of the unity of Man and Nature. In the greatest works of Capability Brown and Humphrey Repton the art of landscape design in relation to architecture often reached the highest levels of art. The wish to utilise the landscape of England, in itself often small scale and insignificant, as an element of a larger idealised art form was a common one and something totally appreciated by land-owners. We seem to have lost the sense of landscape and architecture as elements most likely to raise our visual understanding—albeit on the smaller scale of gardening it remains a strong current of British creativity.



One of the first landscaped courtyards of Stockley Business Park, an inspiring regeneration of derelict land

and have a great deal to commend them for economy and elegance. The task for the architects was a difficult one. After a tour of American business parks in Silicon Valley and other locations they were asked by the developers to design multi-purpose commercial buildings for high technology operations, that could be used for laboratory, training, distribution and similar functions. The difficulty of the design task is to define the very nature of modern industry. Planning rules and regulations are lagging behind the real needs of development. Industry is no longer an environmentally damaging activity. It is often not so far removed from the average "office" space. The sort of research and development needed for high technology industry demands simple, flexible space that is well serviced.

The appearance of Stockley Park at the moment gives only a modest clue to the future development. The Arup fast build shell-and-core pavilions can be fitted out as the tenants require and there will be an unusual level of design control. The development of the park itself offers the promise of an 18-hole golf course and the planting of 100,000 trees. The landscape is the responsibility of Charles Funke and Bernard Ede Associates—the latter has cut his teeth on the extensive landscape of Milton Keynes. At the centre of the new park the developer will provide extensive new sports buildings and a small shopping facility. The whole story of Stockley Park is an important one in terms of the kind of partnership that is on offer between local authorities and private developers. The London Borough of Hillingdon will, in this case, gain 100 acres of commercial development and a new 230 acre public park provided by the developer. In terms of the reclamation of the land that had, since the 1930s, been used as a rubbish dump on exhausted gravel pits, it offers enormous public gains.

The Entertainer/Shafesbury

Michael Coveney



Peter Bowles

"State of the nation" plays are two a penny these days but, even 30 years on, John Osborne's *The Entertainer* takes a lot of beating. While it is certainly a period piece, the play still thrives as a dramatic document of a nation going to the dogs after a sustained period of disenchanting government. Old Billy Rice, Archie's father, regrets "tarts and television" in the pub, the collapse of good chavvinism, manners, bloody foreigners and Welfare State spongers. Every now and then he sings a hymn. Billy's grand-daughter is teaching art classes and demonstrating in Trafalgar Square: her brothers have each responded differently to military call-up. Mick is "out there" during the Suez crisis, Frank has said no and served six months, and Archie is playing the local theatre in a show that demonstrates all too painfully why the music hall is dying.

Osborne brilliantly transformed the music hall act of Archie Rice into a wash of affectionate sledge punctuating scenes of raw and compellingly convulsed ventriloquist's dummy demeanour. Mr Bowles paints on unconvincing little faces, like his arched eyebrows, his studied furtive cough, his tensed mouth and occasionally popping eyes. More crucially, there is no desperation and no emotional exploitation. After news of Mick's death, Archie completes a devastating scene of drunken sobbing with an elemental, spontaneous delivery of a Negro spiritual, a moment of rare spiritual candour and one of modern drama's finest curtains, and anyway I've only seen

been told the draught Bass is "off" for the night. He strikes me as a Babycham and Martini man, anyway. The production is so slow to get moving that, at Saturday's matinee, I endured the curious sensation of watching elderly patrons on either side of me drop off to sleep in the first 10 minutes. Frank Middlemass is a lovely actor, but he misses the briskness and celebratory lamentation of old Billy, ruing all that into something precious and wondrous. The muddled opening sequence is partly due to the disastrous design of Martin Johns, which confines the actors within the false proscenium half-way up the stage for most of the evening. Even in the fourth row, they seem to be signalling from the end of the pier. Archie played large and unforgiving half-empty bars, the play needs a more intimate evocation of that grim reality than is possible in Bertie Crew's pink wedding cake extravaganza of an auditorium. The one indisputable success is Sylvia Syms's absurd and absurdly loyal Phoebe Rice. It is not her fault that the final scene where she comes to collect Archie from the hospital is a proper punch. Miss Syms, who has shown in a Cambridge *Vortex* what a fine actress she is in demanding roles, transmits a ravaged inner beauty, a sense of a life lived like Archie, dead behind the eyes. Her tentatively melodic version of "The Boy I Love is Up in the Gallery" is the show's highlight and says everything Osborne could dream of saying about the importance of those music hall songs for a public threatened with the rape of its collective cultural memory.

Circe and Bravo/Hampstead Theatre

Michael Coveney

Donald Freed is an American playwright and screenwriter who keeps plugging away at CIA conspiracies and White House cover-ups, to judge by his liberal showbiz track record. In *Circe* and *Bravo* he distills his post-Watergate zeal into a cat and mouse game between America's First Lady and her Secret Service bodyguard in the President's Camp David mountain home. The time is the 1960s, the First Lady played by Fay Dunaway, the director Harold Pinter.

Miss Dunaway, making her London stage debut, is a jittery and resentful Circe who only draws upon her siren characteristics after an extended bout of indulging what she calls her "feminine and mythological problem." The character is, in fact, under house arrest and identifies with all those sad First Ladies dimly discernible on the mantelpiece. Like Martha Mitchell, the political wife who spilled the beans, she knows where the bodies are buried in the rose garden.

Odysseus, however, a veteran of the Viet Nam as opposed to Trojan War, curls up in a Freudian bundle instead of rising to the sexual challenge. The reversal of authority roles makes sense more perceptibly dramatic than persuasively logical, with Miss Dunaway, as startlingly attractive as the performance I had dared to hope, melting from aggressive captive to dominating games mistress. In the final stages, Stephen Jen's sinister attendant is hypnotised back to his Wisconsin youth. In a waking nightmare, he burns his hand on a poker, falls on a settee, removes his specs, opens his mouth in a silent scream, calls for "Mamma" (lots of American presidents called their wives "Mamma") and envelops Miss Dunaway in a chaste hug. All gripping stuff, and we finally get to see Miss Dunaway exchanging a cloying suit for the inevitable white lowelling bath robe. Her

Sinopoli/Festival Hall

Dominic Gill

Giuseppe Sinopoli has obviously been doing a lot of work in front of the mirror lately to the left hand. No wit follows his right hand slavishly in symmetrical mirror-image only 80 per cent of the time, instead of all the time as is not yet a frequent enough to make his ensemble of conductor's gesture entirely convincing. But in *Raphael's Foundations of Rome*, which opened his programme with the Philharmonia Orchestra on Thursday, he managed with a certain dogged dexterity to keep at least the feet of the music dancing—an unusually effective and successful performance, and one of the best from him that I've heard. The concert was sponsored by Suntory, the Suntory Music Foundation commissioned Orion and Phideas for cello and orchestra from Toru Takemitsu in 1984; the evening's modern work was *Orion* and *Phideas*. It is an attractive piece, at 25 minutes perhaps a shade too long for its material, but sprinkled with many bappy inspirations. The world is predominantly five-dialects Oriental, and there are frequent stirrings of clouds, stars and incense that summon, rather than explicitly recall, early orchestral *Skyrabin*. In the second movement there are unmistakable resonances of Messiaen—especially in the little waltz-chorale which punctuates the movement. But *Orion* and *Phideas* is derivative: it has its own, gentle sound-world,

Bath Festival/Paul Driver

Paul Driver

This year's Bath Festival, under the direction of Amella Freedman, which ended yesterday, has been so richly stocked with events (many of them have been, or will be, broadcast by the BBC) that on both days "spare" there no fewer than three main evening concerts. Most of the foregoing evenings necessitated a choice of at least two important events. Often enough the choice has been of extremely diverse elements: Saturday night brought simultaneously the Philip Jones Brass Ensemble in a programme of dances at the Theatre Royal, the Taverner Consort and Players in Bach's 3rd Mass at Bath Abbey, Britten's *Carolee* at Wells Cathedral, and a substantial piano recital by Peter Donoboe at the Guildhall. But it is ironic that this flowering of activity should come just when efforts are being made to axe part of the already small Arts department at Bath University. The Festival's theme has been French music: it was tokened in soprano Elyse Ameling's recital, with neat, attentive piano accompanist Rudolf Jensen, at the Theatre Royal on Friday night by a second half of melodies by Debussy and Faurig and chansons by Reynaldo Hahn and Sade. Miss Ameling began, though, with an intensely serious rendering of two groups of Schubert lieder: five "Songs of Spring" and six utterances by "Girls in Love". Her voice immediately re-

vealed itself as of the brightest, clearest, and most able of her tones had a liquid freshness; her skill at varying the colour and inflection of phrases seemed limitless (if ultimately wifid), and although she had a wonderful vocal presence, she also suggested some great pure voice from the past, alluringly preserved on records. She could not be faulted for accuracy of intonation or clarity of words; her legatos and top notes were discreetly thrilling. She made a profound communication, particularly of *Das Lied im Grünen*, *Sutriko I* and the veritably Wagnerian *Die Junge Nonne*. Nothing could have been in

stronger contrast to Schubert leader than Debussy's now-faded discourse—supple, plastic, yet evanescent—in his *Trois Poemes de Stephane Mallarmé*, which Miss Ameling performed with very good intonation, setting by Carlos Guastavino (1912) "*La rosa y el sauce*", which William Mann in his programme-note considers one of "the world's great songs"—had a definite impact. But the cabaret pieces by Sade and Hahn were unenlivening.

1986 Cheltenham Music Festival

One of the major themes in this year's Cheltenham International Festival of Music, which runs from July 5-20, is Music and Musicians from West Coast America. This will include works by Composers-in-residence Peter Racine Fricker, William Kraft and Lou Harrison. Mozart's Vienna period 200 years on will be celebrated with several orchestral and chamber concerts, as will the centenary of Liszt's death with two piano recitals. The morning recitals at the Pittville Pump Room include a series of string quartets by Cherubini, Bartok and Haydn. Dance returns to the Festival in the newly refurbished Everyman Theatre with the

jazz/modern dance collaboration *Pier-Rides*, followed by performances of *Serenade*. Commercial sponsorship has increased by over 60 per cent on 1985, and local councils and the Arts Council continue to give assistance. The British Theatre Association appeal for the sponsorship of vital equipment needed for its new home at Regent's College, Regent's Park. Equipment needed ranges from a staircase—each stair cash sponsored library and office furniture, shelving and a new sprung floor.

Musica Antiqua/St James's, Piccadilly

Richard Fairman

Musica Antiqua Köln is one of the leading German ensembles playing on original instruments. A series of prestigious recordings has won them a fine reputation and, as though to remind us of the fact, the first 10 minutes of this concert on Saturday had the audience blinded by flashlights as a press photographer tried to snap his subjects from every conceivable angle—a sort of baroque *son et lumière*. Three of Bach's *Brandenburg*

concertos made up the programme, which was part of the Luthansia Festival of Baroque Music being held at St James's Church, Piccadilly. Musica Antiqua flew to give us one concert and to judge from their speeds could well have flown out again the same evening. Early practitioners of the authentic approach, such as the unhardly already adopted faster tempi; but this group of young musicians are a new generation in high-speed play-

were left with a physical burst of energy. Vivaldi has sounded like this before, for instance in the summer storms of the *Four Seasons*, but not usually Bach. Either by design or necessity, their choice of fast speeds brought one other feature: a sense of the virtuosity of each bar gave a kick to the rhythms and also helped to keep the instruments firmly together. This, however, is an effect that can become tiresome and in the allegro of the first Concerto the heavy thump on the first beat by horns and continuo soon started to sound an musical. It goes almost without saying that the group responded with playing at a virtuoso level. Under their director, Reinhard Goebel, all except the horns showed their vital and accurate old instruments can be.

Arts Guide

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Music

PARIS: Anna Tomowa-Sitowa recital (Mon), Théâtre de l'Athénée (4742 8127). Orchestre National de France, conducted by Christoph von Dohnányi; Horacio Gutierrez, piano. Brahms, Mendelssohn (Mon), Salle Pleyel (4501 9830). Czech Philharmonic conducted by Václav Neumann; Mozart, Strauss, Dvořák (Mon), TMP-Châtelet (4233 4444). Ensemble Orchestral de Paris, conducted by Jean-Pierre Wallès; Alexandre Lagoya, guitar; Vivaldi, Rodrigo, Mozart (Tue), Salle Pleyel (4501 9830). Cello Concertos, Jean-Marie Gamard, Marie-Aymée Malaguin, Vivaldi, Boccherini, Haydn (Tue), Saint-Severin Church (4633 8761). Symphony Orchestra and Choir of Spanish radio and television, conducted by M.A. Gomez-Martinez; De Falla, Rodrigo, Curial (Tue), TMP-Châtelet (4233 4444). Annie Fischer, piano; Mozart, Schumann, Brahms (Wed), Théâtre des Champs Elysées (4723 4777). Ensemble Intercontemporain, Olivier Messiaen (Thu), Centre Georges Pompidou, Grande Salle (4278 7995).

LONDON: Philharmonia Orchestra, conducted by Giuseppe Sinopoli, with Bruno Giuranna, violin; Berlioz, Schubert and Debussy, Royal Festival Hall (Tue) (828 3191). London Mozart Players, conducted by Jane Glover, with Heather Harper, soprano; Mozart and Britten; Queen Elizabeth Hall (Wed), (938 3191). English Chamber Orchestra, with Sir Georg Solti and Murray Perahia, soloists; Mozart piano concertos in the presence of the Prince and Princess of Wales; Barbican Hall (Wed), (638 8881). London Bach Orchestra, directed by Nicholas Kraemer; Vivaldi's Gloria and Four Seasons; Queen Elizabeth Hall (Thu). Philharmonia Orchestra, conducted by Skripkin; Dvorak, with Nigel Kennedy, violin; Beethoven, Mendelssohn and Brahms; Royal Festival Hall (Thu). NETHERLANDS: Amsterdam, Concertgebouw. Recital Hall; 24 voices, four percussionists and electronics (Tue to Thur), (23 57 23). Saint Paul Chamber Orchestra, conducted by Pinchas Zukerman, violin; Haydn, Mozart, Dvořák, Schubert, Moszkoverin (Mon). Michael Schneider, violin and viola; Hans Petermann, piano; Mozart, Brahms, Beethoven, Ravel; Schubert Saal, Konzerthaus (Tue 12 11). (Tue). Alfred Brendel, piano; Haydn, Schumann, Liszt, Muszkoverin (Wed).

Franz Liszt piano concours. The 1986 Franz Liszt piano concours at Vredenburg, Utrecht, in the Netherlands, takes place this week. The semi-finals are being held today and tomorrow at 11am, 2pm and 8pm. In the finals, on Thursday, the six chosen candidates will perform with the Netherlands Philharmonic Orchestra under the baton of Anton Kersjes (8.15pm). VIENNA: Saint Paul Chamber Orchestra, conducted by Pinchas Zukerman, violin; Haydn, Mozart, Dvořák, Schubert, Moszkoverin (Mon). Michael Schneider, violin and viola; Hans Petermann, piano; Mozart, Brahms, Beethoven, Ravel; Schubert Saal, Konzerthaus (Tue 12 11). (Tue). Alfred Brendel, piano; Haydn, Schumann, Liszt, Muszkoverin (Wed).

NEW YORK: Merkin Hall (Goodman House); Robert De Gaetano piano recital; Mozart, Robert De Gaetano (world premiere) Liszt, Bernstein, Rachmaninoff (Mon); Hebrew Arts Chorus and Chamber Singers; Elayne Robinson Grossman director; Mendelssohn, Beethoven, Schubert, Brahms, Liszt, Schumann, Barber, Ravel, Liszt (Wed), 674 W. of Broadway (382 8718). Bergameggi (Fulcoo Ferry Landings); Chamber music concert with Warren Lash, cello; Charles Meidich, clarinet; Diane Walsh, piano; Debussy, Beethoven, Brahms, Brooklyn (624 4061). CHICAGO: Chicago Symphony Orchestra; Andrew Davis conducting; Mittelschtein, Britten, Beethoven, Prokofiev (Thu), (235 8111). TOKYO: NHK Symphony Orchestra, conducted by Hiroshi Wajima; Mahler; NHK Hall (Wed, Thur), (655 1780).

Saleroom/Susan Moore. Rarities from Imperial China will be the highlight of the auction rooms this week. Sotheby's are offering tomorrow arguably the largest and finest group of Tang dynasty (618-906) tomb figures and wares to come on to the market for many years. The sales consists of 39 lots of Tang pottery, sculpture and metalwork, from a private European collection. A graceful, well-rounded court lady gazed in the most costly blue, a 32½ in. sirding camel decorated with a bold combination of glazes and a vigorous mounted lady polo player in red and white are all expected to top £100,000. By no means the most attractive piece but certainly the most unusual is a limestone carving of a female musician. The survival of relatively few secular stone carvings of the period accounts for its estimate of £30-50,000. In their Chinese bronzes and ceramics sale the same morning is a previously unrecorded Ming blue and white porcelain wine-cup decorated in underglaze blue with lotus blossoms and leaves. One of only four known examples which bear the Yongle period (1403-24) reign mark, it is possibly the rarest piece of early Ming blue and white ever to come up for sale. As the other three cups are in the Peking Palace Museum Sotheby's are cautious to estimate its market value, but expect it to fetch "a substantial six-figure sum." Some 160 pieces of 18th-century German porcelain from the collection amassed in Switzerland by Dr Marcel Nyfeler are to be sold at Christie's today. Comprising mainly early Meissen figures, they include a group of seven characters from the *Commedia dell'Arte* modelled by J. J. Kändler and P. Reinicke for the Duke of Weissenfels in about 1744. A price of £20,000-£30,000 is expected for a slightly earlier grinning Harlequin from Meissen modelled by Kändler. The most glorious piece, however, his his madonna and child of around 1738. The madonna's flowing yellow-lined white robes are trimmed with puce, the colour of the delightful spotted dragon at her feet. Both stand on a starred blue sphere. This confection of counter-Reformation eloquence is expected to fetch anything from £25,000 to £40,000.

FINANCIAL TIMES

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Monday June 9 1986

An important Chinese visit

RELATIONS between Britain and China have come a long way since the difficult days beginning in 1983 when disagreements and mutual suspicion over the future of Hong Kong provoked a crisis of confidence in the colony and severe strains between the two countries.

Not only is there a clearer understanding between Peking and London over Hong Kong, there is also a growing web of mutual interest which is helping to reinforce the healing process.

This week's visit to Britain by Hu Yaobang, general secretary of the Chinese Communist Party, is part of this process. It also adds an extra dimension to the developing relationship.

Symbolic importance For apart from being a member of the all-powerful five-man standing committee of China's ruling politburo and hence directly involved in state policy, Hu is also head of the country's communist party. His visit to Britain at the start of a European tour, the first such visit by a Chinese Communist party secretary, is of considerable symbolic importance.

The general secretary's visit follows a similar trip to Britain by Premier Zhao Ziyang and precedes a visit to China this autumn by the Queen.

Beyond the purely bilateral nature of the trip, Hu's visit is part of a wider western effort to draw the pragmatic new China of its paramount leader Deng Xiaoping, into a closer involvement with the West, thus strengthening the impetus for greater British involvement in China's economic modernisation drive.

Hu's visit will hopefully be more than a merely ceremonial affair. For it should be an excellent opportunity for British ministers to refine their assessment of China's ruling triumvirate, Deng Xiaoping, Hu Yaobang and Zhao Ziyang — and their chances of maintaining the present pragmatic course in the face of persistent left-wing opposition.

Macb depends on Deng's counter revolution, not least the future of Hong Kong. Over the past few months fears of

In the first of a series, Peter Marsh explains why many British high-technology companies have failed to reach maturity

A dream they never sold

A RECENTLY as five years ago, Britain had a golden opportunity to lay the ground for a world-class industry in the fast-growing area of computerised design and manufacturing.

Having developed highly regarded products in computer-aided design and manufacturing (CAD/CAM), which is used both to design new products and program the tools to make them, British companies failed to organise effectively and to make inroads in selling in the US, which accounts for roughly half the world market in this technology.

As a result, in the past five years, four youthful British companies in CAD, all of them with promising products but short on marketing skills, have been purchased by much bigger US groups.

It was "like a marathon runner who sits down 10 minutes before the end," says Mr Charles Foundryer, president of Daratech, a Massachusetts consulting firm.

Today, UK-owned companies are also in the \$5m-a-year CAD/CAM business, which is growing at about 25 per cent a year and in which US enterprises account for some 70 per cent of sales.

Further articles in the next few days will examine case studies which highlight the cultural and management impediments which can stunt the growth of such companies.

The CAD/CAM story starts in the early 1960s. Aerospace and car companies, including Lockheed, Boeing and General Motors in the US, and Dassault in France, were among the early pioneers.

In Britain there were four early strands of activity. In 1968 Ferranti, which had built up expertise by using CAD to design radar parts, started a division called Remulus.



Dreaming spires: The men who ran Shape Data, which preferred research to marketing. From the left Dr Alan Grayer, Dr Ian Braid and Dr Charles Lang

one of Shape Data's founders, the group had no regrets about turning "down" Rascal-Redac's advances. This is even though, the three marriages did not turn out a success. Dr Grayer, Dr Lang and a third founder, Dr Ian Braid left Shape Data last year to form their own consultancy, Three Space.

Compeda, set up by the UK Government in 1977 to market products from the CAD Centre was also to fall prey to a big US concern. A subsidiary of the National Research Development

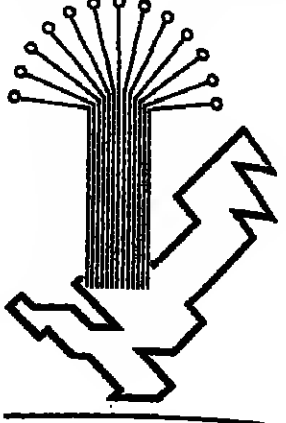
Corporation (a government organisation now part of the British Technology Group), it encountered financial problems and was snapped up for about \$1m in 1982 by Prime Computer.

The most spectacular rise of any British CAD company was that of Cambridge Interactive Systems (CIS), set up in 1977 by four ex-managers at the CAD Centre.

Medusa was not only a hit with the Ampthill concern. It was a bummer of a product," enthuses Mr Norman Williams, CAD manager at Hunting.

An effervescent character who studied computers at Cambridge University and lasted nine weeks in his first job with IBM because he disliked the regimentation, Mr Sanchez recalls the early period as CIS: "Until Medusa, we had three idyllic years. We were a bunch of friends having lots of people drooling over us and saying how wonderful we were."

In 1980 CIS decided against setting up a separate subsidiary in the US to sell Medusa. Instead, it opted for a buy-out agreement with Prime.



US company was Applied Research of Cambridge, started in 1969 by a group of Cambridge University architects to develop design software for construction and mapping.

Before the Computerisation takeover, Rediffusion and GEC Industrial Products had considered bids for CIS. And at Rascal-Redac the indefatigable Mr Wolfendale had on several occasions tried to cement a relationship with the CAD Centre by acting as the laboratory's marketing outlet.

Software Sciences (later owned by BOC and then a subsidiary of Thomson) and Cambridge Consultants put in formal offers for the CAD Centre after the Government invited privatisation bids in 1976.

Two factors stand out from the story. No one — except perhaps Mr Wolfendale, whose efforts came to nothing — was able to convey with sufficient authority the economic logic for putting the smaller concerns together.

Second, apart from Rascal-Redac (which set up its own subsidiary early on), the UK CAD companies largely ducked out of the challenge of selling in the US. Instead, they preferred to sell via distributors over which they had no control.

Rival plans for space launchers

WESTERN EUROPE'S collaboration-minded technocrats face a real test over the next year in the somewhat abstruse area of space launchers.

The subject has had more than its usual share of attention in recent months, as a result of a string of US launcher accidents, followed by the recent failure of western Europe's Ariane rocket.

Space engineers in both the US and Europe are doing their best to shrug off these accidents as no more than a run of bad luck. They are probably right. Putting objects in to space, at least on unmanned rockets, is an activity that the world has every reason to believe it mastered a decade ago.

Alternative approach This is where European technological collaboration will be tested. Through the 11-nation European Space Agency, which masterminded the continent's extraterrestrial activities, West European nations have already decided to develop, at a cost of about \$1.3bn, a heavy-duty form of Ariane, called Ariane-5, as the launcher for the mid-1990s.

Baldock joins Guinness team

Ernest Saunders, having become a member of the select group of British bosses who can claim to have assembled rich and prosperous businesses in double-quick time, is now entering the second stage of his Guinness management.

He is investing his day-to-day management responsibilities to men with proven track records. Brian Baldock, aged 51, left his desk at Imperial last Friday (as managing director of leisure and retailing) and today takes over the Guinness non-drink interests.

Among his patrons are those highly committed campaigners, Lord Chalfont and Norris McWhirter, as well as the Conservative MP and defence specialist Edward Leigh.

Semi-detached Amid all the furors over Alliance splits on defence policy much has been made of a Gallup survey showing divisions

Men and Matters

organised a British promotional campaign for books concerned with commerce and industry. It is formally linked with Industry Year. But the 90 bookshops, which will be holding in-store promotions during the second half of June, will all be hoping that one of the authors on offer will prove to be the laococca touch.

I asked Nigel Oxbridge, director of Business Bookshop, next door to the London Business School, for a hot tip. He favours The IBM Way, by Buck Rodger, which tells why the world's biggest computer company and its special philosophy, has proved successful.

Thin ice Donald Trump, aged 59, the New York property tycoon, was last heard of trying to drum up support for a \$2bn plan to build the world's largest skyscraper in Manhattan.

BASE LENDING RATES

Bank	%	Bank	%
ABN Bank	10	First Nat. Fin. Corp.	11
Allied Dunbar & Co.	10	First Nat. Soc. Ltd.	11
Allied Irish Bank	10	First Nat. Soc. Ltd.	11
American Express Bk.	10	First Nat. Soc. Ltd.	11
Anglo Bank	10	First Nat. Soc. Ltd.	11
Bank of America	10	First Nat. Soc. Ltd.	11
Bank of Australia	10	First Nat. Soc. Ltd.	11
Bank of Canada	10	First Nat. Soc. Ltd.	11
Bank of China	10	First Nat. Soc. Ltd.	11
Bank of Ceylon	10	First Nat. Soc. Ltd.	11
Bank of India	10	First Nat. Soc. Ltd.	11
Bank of Ireland	10	First Nat. Soc. Ltd.	11
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Bank of Korea	10	First Nat. Soc. Ltd.	11
Bank of London	10	First Nat. Soc. Ltd.	11
Bank of Malaya	10	First Nat. Soc. Ltd.	11
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Bank of Romania	10	First Nat. Soc. Ltd.	11
Bank of Russia	10	First Nat. Soc. Ltd.	11
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Bank of Spain	10	First Nat. Soc. Ltd.	11
Bank of Sweden	10	First Nat. Soc. Ltd.	11
Bank of Switzerland	10	First Nat. Soc. Ltd.	11
Bank of Taiwan	10	First Nat. Soc. Ltd.	11
Bank of Thailand	10	First Nat. Soc. Ltd.	11
Bank of the Philippines	10	First Nat. Soc. Ltd.	11
Bank of the Virgin Islands	10	First Nat. Soc. Ltd.	11
Bank of Yugoslavia	10	First Nat. Soc. Ltd.	11
Bank of Zambia	10	First Nat. Soc. Ltd.	11
Bank of Zimbabwe	10	First Nat. Soc. Ltd.	11
Bank of the Middle East	10	First Nat. Soc. Ltd.	11
Bank of the Caribbean	10	First Nat. Soc. Ltd.	11
Bank of the Pacific	10	First Nat. Soc. Ltd.	11
Bank of the Americas	10	First Nat. Soc. Ltd.	11
Bank of the South	10	First Nat. Soc. Ltd.	11
Bank of the North	10	First Nat. Soc. Ltd.	11
Bank of the East	10	First Nat. Soc. Ltd.	11
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Bank of the North	10	First Nat. Soc. Ltd.	11
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Bank of the West	10	First Nat. Soc. Ltd.	11

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Handwritten signature or initials in a box.

Observer

FOREIGN AFFAIRS

A Soviet paddle, perhaps, for Mr Reagan's canoe

By Ian Davidson

PRESIDENT REAGAN'S declaration of intent to throw over the nuclear weapons limits enshrined in the 1979 Salt II treaty continues to generate heated controversy on both sides of the Atlantic. Democrats in the US have denounced it; European governments have deplored it; the Russians have threatened counter-retaliation, and warned that it could jeopardise the second Reagan-Gorbachev summit due some time later this year.

But the interesting thing is that the controversy is not as heated as one might expect. The Russian condemnation, in particular, seems muted and formal. They have protested, but the tone of their protest has been carefully controlled, and their threats of retaliation have sounded deliberately non-specific and conditional.

The explanation may be simple. President Reagan's decision will not be implemented until November or thereabouts and has been hedged with a let-out clause: if the Soviet Union does something to deal with American accusations that it is already violating the Salt II treaty, or perhaps if the Geneva negotiations on new arms control agreements start to make real progress, Washington might "take this into account". In theory, therefore, there could still be just time to avert the worst. President Reagan has allowed theawks in his administration to push his water-logged canoe towards the rapids; the waterfall is still five months away; can any of the available rescue teams paddle fast enough to rescue him in following President Reagan time? It may be doubtful, but it is still possible.

There may also be a second explanation. Even a higher vantage point in the canyon, it looks as if the waterfall is not, after all, a waterfall but a series of steeply descending pools. Deeply dangerous, of course, especially if you are a tourist who does not know one end of a canoe from the other, but not necessarily and absolutely terminal.

The equipping of one extra B-52 with air-launched cruise missiles beyond the limits permitted under Salt II is a very important political step to take, but in military terms it would be meaningless; and the same distinction would apply if the Russians were to match a symbolic American violation with an exactly equivalent violation of their own.

Eventually, a process of tit-for-tat might start to effect the military balance, especially if it gathered momentum. But the Russians should have no desire, and above all no interest, in sliding down the rapids. During the 1970s they built up their nuclear weapons at all levels, while the American inventory stayed pretty flat; this gave them the appearance of an edge, and contributed in 1980 to the election of Ronald Reagan and his rearranging of arms control.

They could easily multiply the numbers of warheads on top of their heavy land-based missiles. But the US has a large number of new weapons systems in deployment or development: the MX land-based missile, the Trident D-5 submarine-launched missile, the B-1 bomber, the Stealth bomber, the Midgetman small mobile missile, and advanced cruise missiles. The accuracy of these weapons may enable them to destroy hardened military targets; so that the multiplication of warheads on the Soviet SS-16 silo-based missiles, which until now have looked particularly threatening to America's land-based missiles, might instead start to look like a serious point of Soviet vulnerability, at risk to an American first strike.

President Reagan's freedom to go down this road is currently constrained by Congressional support for arms control defence spending. But the Russians cannot be sure that these constraints would not be lifted if they are seen to be engaging on their side, in a new arms race; nor can they be sure that a new arms race would not be used to restore urgency and legitimacy to President Reagan's Star Wars programme which, even if it never results in any effective defences, would certainly drive the development of high-technology weapons in which the US has overwhelming advantages.

In other words, the Russians have good reasons to avoid over-reacting to President Reagan's latest move, even if it splashes over the edge into the first pool. Who knows, it might still be possible to prevent him from being swept all the way to the bottom, with outstretched hands to drag the leaky craft to the side, and by skilful and determined portage bring it back up to the calmer waters of Arms Control Reach. It would not be easy; but it might be conceivable.

One tantalising hint of an outstretched Soviet hand emerged the same week that President Reagan launched himself down the rapids: in Geneva, the Soviet delegation made what could turn out to be a radical shift in its attitude to Star Wars. Until now the Russians have been demanding an absolute ban on any testing or deployment of Star Wars defences. Under a strict interpretation of the 1972 Anti-Ballistic Missile Treaty, (This interpretation is



endorsed by most US experts, though it has recently been contested by some Administration lawyers.) In what seems to be a major shift of line, the Russians are now proposing instead a guarantee that there would be no testing or deployment for an extended period—say 15 or 20 years. The ABM Treaty is in principle of indefinite duration; it can be denounced by giving six months' notice. The implication of the new Soviet proposal is not merely that the wording of the ABM Treaty would be tightened to exclude any slippery interpretation, but that this six-month denunciation notice would be changed to 15 or 20 years. The proposal makes sense in

political as well as in arms control terms. Last November's Geneva summit meeting made clear to Mikhail Gorbachev, if he did not know it before, the depth of President Reagan's commitment to his dream of a perfect sanctuary from nuclear weapons. Whatever else may be obtainable in the arms control negotiations, President Reagan will certainly not agree to an explicit renunciation of that dream.

Fewer and fewer people now seriously believe that any amount of high technology could ever take America to the end of that particular rainbow. I recently met an analyst at a leading US military research establishment, which is trying to work out how a defensive system could be deployed without being vulnerable to Soviet counter-measures. In the process, the researchers hold formal debates. "The trouble is," he said, "that everybody wants to be on the Red (ie Soviet) team."

An arms control seminar the other day was considering whether it would be possible to make a safe transition to space-based defences. The conclusion? Very, very difficult. A military research analyst at the seminar described a study of the more limited problem of ground-based defences, to protect missile sites, for example, as permitted under the ABM Treaty. Question: if both sides are allowed the same number of interceptor missiles, which number is best for the US? Answer: Zero.

Rational analysis will not release Mr Reagan from his dream, however. So if there is to be an arms control agreement, it must encompass a contradiction: the President must be able to claim that Star Wars is still alive and well; the Russians must have certainty that the dream will remain a dream until long after Reagan has gone. Perhaps that contradiction can be reconciled by lengthening the denunciation notice.

A long denunciation period would also match the needs of those who want to cut strategic nuclear weapons. For mutual confidence,

deep reductions would have to be phased over, perhaps, 10 years. Presumably the new lower totals would stay in force for several more years, say five. Total: 15 years.

Administration reaction to the Soviet shift is predictably divided. The doves seem cautiously interested; the hawks describe it as a trap, because they fear that it could skewer Star Wars on the slab. In the most optimistic scenario, the Soviet bid could prestage the beginning of movement in U.C. Geneva negotiations; if movement led to real momentum, the prospects for arms control and for a summit later this year could be transformed; and in that case, the deployment of the extra B-52 would scarcely matter.

Moreover, in exchange for the long-term stability of a new arms control agreement, the Russians might be prepared to rectify violation which they deny in the context of the old.

But it is obvious that the most optimistic scenario is not the only one; indeed, the cards look stacked against it. The Soviet shift may be encouraging in theory, but it will not by itself achieve anything. Mr Gorbachev may think that he is offering a significant concession on Star Wars, and from his point of view he is right; but President Reagan will regard it as an American concession on Star Wars, without a compensating advantage. He will not bang heads together in Washington and come down decisively in favour of arms control, unless a major agreement on the control/reduction of offensive weapons, on terms which theawks cannot possibly reject, comes within reach. Until the Russians start to move on this front, optimism will be just wishful thinking.

The real danger in the short and even medium term is not that the 131st B-52 bomber will trigger the unstoppable process of a new arms race, nor that it will lead to a major crisis in relations between the two superpowers, but that it could start a major quarrel between the US and its European partners. The Salt treaties may not have done much to contain the arms race, but they are what we have; to throw them away like that looks recklessly irresponsible. The question facing Mr Gorbachev is this: would such a quarrel help the Soviet Union, and should he try to foment it? If it played into the hands of the quasi-neutralists in Europe, like the Labour Party, the answer is yes; if it strengthened the position of those, like Mr David Owen, who argue for a stronger European defence identity, the answer is no. Since he cannot know which is more likely, I suspect he will play safe and try to rescue Reagan from the rapids.

Lombard How the dollar has fallen

By Samuel Brittan

THE SENSE of restlessness so clearly being felt by Mr James Baker, US Treasury Secretary, at the slowness of the US trade balance to respond to dollar depreciation will strike a chord with those who have long memories.

For it is all terribly reminiscent of the period after the devaluation of sterling in November 1967—so long resisted by the then Mr Harold Wilson with an emotional obstinacy reminiscent of Mrs Thatcher's present attitude to the European Monetary System.

When devaluation occurred, there was a seemingly endless wait before any effects were seen on the UK balance of payments, and during this wait all those who believe that all elasticities are zero—and that in any case devaluation is immovable—were delighted to say: "I told you so." It was not until the summer of 1969 that decisive evidence appeared of a turnaround in the British overseas trading account.

The devaluation of the dollar has been followed by a similar train of events. In spite of a long good month of which President Reagan went to town, the OECD expects both the trade and current deficits to be this year in the \$130bn to \$140bn range—higher than in 1985—with only a small improvement expected next year.

Part of this sluggishness reflects valuation lags known as the J-curve. After a devaluation, import prices tend to increase straight away in dollar terms thus boosting the import bill while exports take time to strengthen. The OECD projections do show US export volume rising in the course of 1987 by 11 per cent, compared with only 6 per cent for imports.

Nevertheless, many people—not least an Administration worried by protectionist pressures from US producers—would like faster progress. One scapegoat that has recently emerged is

Table with 2 columns: Industrial countries, Morgan Guaranty Index, Broad coverage, Morgan Guaranty Index. Includes inflation adjusted % and nominal %.

Eight years of litigation

From the Director, Association of Independent Radio Contractors

Sir—On page 1 the recent White Paper on copyright, "Intellectual property and innovation" (Cmd 9712) states: "The benefits of any intellectual property system are obviously undermined if the associated legal machinery is too slow, too complicated and too expensive."

The White Paper also says: "The Government proposes to extend the existing jurisdiction of the Performing Right Tribunal to enable it to determine disputes arising between licensing bodies and persons or organisations exercising licences in all areas where there is a licensing scheme operated by a collecting society."

In 1978 the association referred to the Performing Right Tribunal the matter of the terms of the licences granted to its member commercial local radio stations by Phonographic Performances Ltd (PPL) on behalf of the majority of UK record companies.

In 1980 the PRT conducted a hearing which lasted 80 days. Dissatisfied with the PRT's decision, the association applied to the High Court for an order under the 1956 Copyright Act for the PRT to be required to "state a case" for the opinion of the court.

In 1981 a High Court judge ordered the PRT to state a case. In 1983 the PRT produced the case stated.

In 1984 another High Court judge heard six days of argument from the association, PPL and the Musicians' Union, which had intervened on a number of points of law the association had raised on the case stated.

In January of this year that judge produced his judgment, in which he directed the PRT to reconsider the matter.

As I write, the association is trying to persuade the PRT with some resistance from the PPL and the Musicians' Union—to carry out the judge's directions as soon as possible, which in legal time-scales appears to mean not before July at the earliest.

The association first gave notice of reference of the PPL agreements to the tribunal on October 6 1978. Our experiences thus far do not give us any confidence that the issue will be resolved before the ninth anniversary of that date.

These eight years of litigation in the PRT system, have cost a small industry, composed of little local companies, the best part of £500,000. In aggregate they have almost certainly cost the "other side," PPL and the Musicians' Union, rather more, yet the matter is far from being resolved.

Has the system been shown

Letters to the Editor

From the Director, Development Capital Corporation

Sir—It is alarming to read (May 28) that the head of the technical advisory department of the Institute of Credit Management continues to champion the myth that big companies are to blame for failing to pay promptly.

I would draw Mr Walker's attention to the survey I carried out into receivables management performance in medium-sized companies, which is reported in the Financial Times on October 11 1983. The study's findings highlighted that prompt payment was essentially about the attitude and practices of the payee, not the payer.

The sooner businesses of all sizes realise the solution to prompt payment is in their own hands, the more positive their cash flow!

Janusz Heath, 103 Mount Street, W.1.

A fair share of the surpluses

From Mr C. E. Quinney

Sir—Mr McShee's interesting riposte (Letters May 30) to your leader on "Raiding the pension funds" rightly stresses the origin of occupational pensions as a benefit promised by employer to employee; but his attempt to justify employer clawbacks of surpluses ignores three points.

1—The impact of inflation on frozen benefits and benefits in payment. There must at least be a moral, if not a legal, presumption that the benefits to the employee would, or should maintain their real value.

2—Contrary to Mr McShee's assertion, an implied part of the occupational pension "deal" is that the employee and employer will each maintain an agreed

Payment on time

From Mr J. Russell

Sir—Mr McShee's letter (May 30) is surely typical of the legalised nonsense used to drive down the living standards of industrial pensioners.

The lobby which is supported by the Financial Times leader is not against the cliché that "Managers must manage;" it is for the concept that pension funds are for the pensioner.

That before any money be extracted from pension funds for non-pension purposes, the interest of the pensioner should be safeguarded.

Pensioners are the weakest section of the community. No-one competes for their services. They have little political clout. They are very open to being driven into penury by unscrupulous managers of pension funds whose reputations are made with high share values and bottom-line profits.

So when the Government introduces legislation to assist company directors to extract money from the pension funds, surely that legislation should first secure an adequate pension escalation for the fund pensioners? Why should pensioners be excluded from the booming profits of industry?

J. E. Russell, Over Dusdale Hall, Neasham, Darlington.

percentage of current salary contribution to the pension fund, at least until the benefit promised, including protection against inflation, have been met.

3—It is precisely because of a narrow legalistic approach to rights and obligations under occupational pension schemes by some employers that many commentators now believe only legislation can ensure that basic rules and standards which are fair and acceptable to society at large are applied.

These include a minimum level of pension rights for given contributions; adequate transferability and/or the right to opt out of a company scheme; and a maximum level of self-investment by pension fund in the company's own shares. Surpluses should be devoted first to funding a pensioner's existing or future pensioners, second to returning to companies any extra payments which might have been made to keep the fund solvent in bad times (as many companies did in the mid-to-late 1970s) and third, for any surpluses still remaining to be shared equally between company and scheme members.

Mr McShee may be right historically and legally, but it is hard to see many people disagreeing with the above as a basic framework within which the pension funds should be required to operate.

C. E. Quinney, Dexamenis 21, Politia, Athens.

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Terry Byland on Wall Street

Railways build up steam

"WHICH WAY is the US economy heading?" was the question finally puzzling Wall Street at the end of a week with enough puzzles to keep George Smiley and the rest of the Western intelligence services occupied until superannuation day.

Bond yields had been rising steadily on the belief that a strengthening economy would force rates higher and prevent the Federal Reserve from easing policy. The stock market, deciding that increased economic activity would outweigh any ill effects of higher interest rates, seemed to be gearing itself for a renewed advance.

Mr Paul Volcker's appearance before the Boston conference of central bankers, where he resurrected the inflation bogey, gave the markets a fright not entirely calmed by his encore performance at the House Banking Subcommittee.

But the disclosure on Friday of a sharp and unexpected rise in US unemployment rocked the boat - particularly in the bond market where yields hurriedly turned downwards after threatening to burst through the 8 per cent level again earlier in the week.

The stock market, having kept its composure as bond yields rose,

	Price (\$)	P/E
Burlington North	65 1/2	9
Florida East Coast	42 1/2	14
Kansas City S.	59 1/2	19
S & P 500	245.67	16.73

seems likely to move forward again if the credit markets have genuinely reversed direction.

So, at least, ran the argument on Wall Street on Friday night. Stocks, however, seemed slow to accept the thesis, and will await today's opening in the bond market with caution.

The more optimistic analysts, already seeing steady growth in the economy, are beginning to seek out those stock market sectors likely to respond the most readily. The uncertain trend of the dollar has cast a shadow over the overseas earnings stocks, including IBM and the pharmaceuticals. IBM, as so often, is proving to be almost a stock market trend in itself, as Wall Street analysts vie with one another to downgrade their earnings forecasts.

Currency nerves have driven some investors back towards domestic stock sector. Rail stocks, largely overlooked since the plunge to new lows in March/April, have attracted increasing interest over the past fortnight.

Rail cargo traffic is a clearly identified signpost of US business activity and the stocks of the major retail carriers have long been an integral part of the market's core leadership," says Mr Joseph Barlet, technical analyst at Butcher & Singer. Core leadership on Wall Street indicates an established presence in those major institutional portfolios which must lead the market if they are to outperform it. It was this pivotal position that brought the sharp dip in rail stocks throughout March and April to levels which have lain steady since the beginning of May.

Burlington Northern, operator of the largest US rail network with 29,000 miles of track, slumped 22 per cent to \$64 in March/April, but has now begun to edge higher in sporadic bursts of trading activity. But lower prices offer greater benefits than drawbacks to a diesel powered rail carrier of coal and grain, cargoes which cannot easily be transferred to road transport. Burlington Northern has high visibility in the stock market and may be held back by the generally modest tone of Wall Street's earnings forecasts. After a strong 1985, the group may turn in no more than a 1.6 per cent gain in profits this year.

Greater opportunities may lie in the less centrally placed railroads. Florida East Coast Industries, which operates entirely within its home state, where rapid expansion in both population and the economy has kept rail traffic trends ahead of the industry norm.

Also likely to benefit from lower fuel prices, Florida East Coast is expected to push earnings ahead by about 4 per cent this year. The stock is 15 per cent off its year's high and thus offers substantial recovery prospects.

Kansas City Southern, also well below its 1986 peak, may have special factors in its favour. Earnings prospects are somewhat uncertain because of losses in the fibre optics divisions. But the hullishness which is already driving the stock upwards lies in the prospects for a sell-off of the rail freight operators. The prospective selling price for the group's 1,700 mile network is likely to rise as the sector returns to stock market favour. With the Dow humping its all-time peak, albeit in a somewhat nervy atmosphere, there are few sectors still offering significant growth in stock prices as in earnings.

DISARRAY AND DISASTERS HIT WEST'S SPACE PROGRAMME

Soviets' clear run into space

BY PETER MARSH IN LONDON

WHILE the US and West European space programmes are in disarray as a result of political wrangles and a stream of accidents that have grounded the West's main launch vehicles, the Soviet Union is quietly moving towards its goal of maintaining a permanently manned outpost in the heavens.

The country is gradually developing its prowess in using the new Mir space station, launched on February 20, together with Salyut-7, an older generation of space base, which is still in orbit after four years.

According to observers in the West, the Soviet Union plans to use Mir the core of a large complex of space modules. The station, a cylinder about 15 metres long, has six docking ports (four more than Salyut-7) for attaching a range of modules for scientific experiments and observation of the Earth.

Cosmonauts would live and work permanently in the complex, with crews being rotated using a new space ship, Soyuz TM, which was tested for the first time last week.

The TM craft, which docked unaided for several days with Mir before separating last Thursday, is roomier and contains more advanced electronics equipment than the Soyuz T, the current version of space ship. The Soviet Union routinely uses its three-man Soyuz T vehicles to transfer crew and materials to and from space.

In the past few days, two cosmonauts, Mr Leonid Kizim and Mr Vladimir Soloviyev, have attached a series of pylons outside Salyut-7 that could be used to house scientific experiments or to build up a large

The US is 10 years behind the Soviet Union in the practical uses of space, according to the latest edition of Jane's Spaceflight Directory.

Mr Reginald Turill, the editor, says the Soviet lead is "almost frightening". He expects the Soviet Union soon to have a range of 10 different types of expendable launch vehicles and two re-usable craft, similar to the US space shuttles. These would be able to lift up to 30 tonnes into orbit a few hundred kilometres above the Earth.

This array of craft would support both the Mir and Salyut stations now in space, together with a third generation of orbiting bases expected around the end of

the decade. Mir, according to Mr Turill, would act as the basis for the production of novel materials using exotic low-gravity processing methods. In contrast, the Salyut bases have been used mainly for experiments.

Last year, the Soviet Union launched 99 satellites, the country's highest tally since 1976. According to Jane's, the Soviet Union spends about \$30bn a year on space activities, compared with about \$20bn by the US. In both cases, more than half the spending is on military applications.

Soviet citizens have been in space for about 4,000 person-days, compared with less than half this figure for the US.

After the accidents, the US National Aeronautics and Space Administration (Nasa) has suspended flights of its space shuttle fleet and Delta and Atlas-Centaur rockets. To add to the West's difficulties, Europe's Ariane rocket was destroyed shortly after its most recent lift-off, its fourth failure in 18 missions.

Ariane will probably be grounded for several months while investigators try to find what caused the accident. Leaving the West with no routine way of putting payloads into orbit.

Until engineers can demonstrate a series of successful flights with these launch vehicles, confidence in the West's space capabilities will inevitably be shaken. The position is not helped by arguments between the US and the 11-nation European Space Agency (ESA) over the exact

role for Western Europe in the space station plans.

As a result of the disagreements, ESA has failed to sign a Nasa document committing itself to the design stage for the orbiting base.

Some observers fear that by the time the West gets itself organised in building the space station, the Soviet Union will have established a significant lead in keeping people permanently in orbit.

"The Russians do not have any dramatic access to technology but they are ahead [in space developments] in a number of areas," according to Mr Roy Gibson, a former director general of ESA and the head of Britain's National Space Centre. "They just keep going. They do not seem to be put off by accidents."

According to Mr Peter Smolders, a Dutch journalist who keeps a close watch on the Soviet space programme and recently conducted a live television interview with the two cosmonauts now in space, the Soviet Union plans a series of four specialist modules for docking with Mir.

The modules, for low-gravity materials processing, astronomy, biology experiments and Earth observation with high-powered cameras, would probably not all be in place until next year. Until then, Mr Smolders thinks the Soviet Union will operate the Mir and the Salyut-7 concurrently, after which the older base might be allowed to drop in orbit and burn up in the atmosphere.

The Salyut base, despite its age, is valuable, Mr Smolders feels, because it contains much useful scientific equipment, for processing crystals for example.

UK, China in \$50m study deal

By Alain Cass, Asia Editor, In London

BRITAIN AND China will this week sign a \$50m deal to finance studies in the UK by Chinese students, during the visit to London this week of Hu Yaobang, the general secretary of the Chinese Communist Party.

The agreement, initiated by Sir Y. K. Pao, the Hong Kong industrialist, will be signed by Sir Geoffrey Howe, the British Foreign Secretary, and Li Peng, the Chinese vice-premier, accompanying Hu on his four-day visit.

The scheme will enable up to 300 students from China to study in Britain over a 10-year period and is aimed at reinforcing the Sino-British agreement over Hong Kong under which the colony reverts to Chinese rule in 1997.

The idea was originally proposed by Sir Y. K. Pao to Mrs Margaret Thatcher, Britain's Prime Minister. Under the plan, China is expected to contribute \$20m and Britain \$10m and the rest will be raised by the Hong Kong shipping magnate.

Although General Secretary Hu is not in Britain specifically to discuss the future of Hong Kong, the issue is bound to figure prominently in the talks, which begin today with a meeting with Mrs Thatcher.

Over the past six months, Britain and China have made considerable progress in negotiating detailed arrangements governing Hong Kong's future after 1997. Of those, the agreement to allow Hong Kong a separate role within the General Agreement on Tariffs and Trade is regarded as the most significant.

General Secretary Hu, whose visit to Britain starts a European tour that includes West Germany, France and Italy, will also have lunch with the Queen in Buckingham Palace.

His visit, which precedes the Queen's own trip to China in the autumn, is of considerable symbolic importance, and is in marked contrast to the poor state of relations between Britain and China since the beginning of negotiations over Hong Kong in 1982.

Student clashes, Page 2

Top Iraqi officials in Paris for talks

BY PAUL BETTS IN PARIS

MR TARIQ AZIZ, Iraq's Foreign Minister, was scheduled to arrive in Paris last night for urgent consultations with the Chirac Government at a time when France is seeking to improve relations with Iraq.

Concern over the fate of nine French hostages held in Lebanon by Shia Moslem militants believed to be closely linked with Tehran appears to have been the immediate cause of the weekend expulsion from France of Mr Massoud Rajavi, the exiled leader of the People's Mojahedin resistance movement.

After a raid on his headquarters at Auvours-sur-Oise, near Paris, he was escorted to Le Bourget airport and flew to Baghdad.

Mr Rajavi and his entourage were greeted there by senior members of President Saddam Hussein's regime, including Mr 'Abba Yassin Ramadan, the First Deputy Premier, who is second in seniority, and Mr Adnan Khairallah, the Minister of Defence.

Mr Aziz's expected arrival within 24 hours of Mr Rajavi's departure indicates acute Iraqi concern. He is expected to see President Francois Mitterrand and Mr Chirac tomorrow and Mr Jean-Bernard Rai-

mond, the French Foreign Minister, today. France has been Iraq's main Western economic partner and supplier of weapons for use in the war with Iran.

France is owed an estimated \$1.2bn (\$3.2bn) by Iraq, about half of it for military supplies. French officials say that \$3.5bn is due in repayments: this year and that Baghdad has recently been in arrears.

Support given to Baghdad was evidently the reason that nine French citizens were kidnapped in Lebanon by the shadowy "Islamic Jihad" group, which is believed to derive its inspiration from Ayatollah Khomeini's regime.

Iran has said in the past that it exercises no control over elements holding hostages in Lebanon. But Tehran complained directly about the activities of the People's Mojahedin in France when Mr Ali Reza Mouyeri, its Deputy Premier, met Mr Chirac in Paris last month.

Mr Chirac ruled out any repatriation of exiles but said that France ought to make political refugees observe strict neutrality.

Iraq will, at least, be happy to host the people's Mojahedin.

British Gas loses battle over debt

By Lucy Kellaway in London

BRITISH GAS has lost its battle to be privatised with no debt in its balance sheet. The UK Government will announce in the next few weeks its decision to saddle British Gas with about £2.5bn (\$3.7bn) of borrowings, which will moderate the corporation's ability to make acquisitions and large investments.

The shape of the balance sheet was one of the most important issues to be settled before the flotation in November. By choosing to burden British Gas with debt, the Government is preventing it from booming too dominantly a force in the industry. At present, it has no net borrowings, whereas all the other major oil groups carry a significant weight of debt.

The decision will ease the task of the flotation, the biggest ever attempted, by reducing the value of equity to be sold from the £7bn-£8bn to around £5bn, and may maximise the total proceeds from the sale.

It is also likely to allow the Government to fine-tune the timing of revenues from its privatisation programme. While the exact form of the debt has yet to be fixed, one possibility is that British Gas would repay debt to the Government over the next two years one a timetable that would dovetail with gaps in the Government's gilt-issuing programme.

Under the present arrangements, British Gas transfers an agreed proportion of its surplus each year to the Government. In the financial year, that was £176m, against a budgeted figure of £352m, reduced because of the effect of high gas costs and the weakness of sterling.

The cost to British Gas of debt servicing is not expected to put an undue burden on the corporation, which produces a cash flow of about £1.2bn in each of the last three years. Interest payments of about £250m a year significantly reduce its 1985-86 profits, which are expected to be about £260m after tax.

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Continued from Page 1

Mr Michael Marshall, chairman of the House of Commons all-party space committee, said yesterday that the proposal ought to be looked at seriously. But he suggested that the military orientation of Britain's current squad of astronauts could present one possible barrier to a joint mission.

Britain has four astronauts in training, all defence ministry employees. Two of the astronauts, Sgt Ldr Nigel Wood and Cdr Peter Longhurst, had been due to fly aboard the US space shuttle on two separate trips to help in the launch of two UK Skynet military satellites. Because of the grounding of the shuttle fleet after January's Challenger explosion, Sgt Ldr

Woods' trip has been postponed by at least a year from its scheduled date of later this month.

Cdr Longhurst is unlikely to fly on the shuttle in the near future because Britain has switched to the launch of one of the satellites to Ariane, the unmanned European rocket.

Moscow has offered in the past to use its rockets to launch Western satellites but, given the sensitive nature of the Skyset vehicles, it is unlikely Britain would agree to transport the space craft to the Soviet Union for takeoff.

Cdr Longhurst said yesterday he had not yet heard about the Soviet offer.

Hopes fade for talks

Continued from Page 1

sidering any further economic measures.

The steady escalation of violence in South Africa has raised the demands within the Community to extend the list of measures agreed last September, which included a nuclear and arms embargo, the withdrawal of military attaches from Pretoria and a ban on sales of kruggerands.

The Danish Parliament has already agreed on a total trade embargo, and Ireland has decided to ban imports of South African fruit and vegetables. The Dutch Government is also under pressure to halt

fruit and wine imports from the republic.

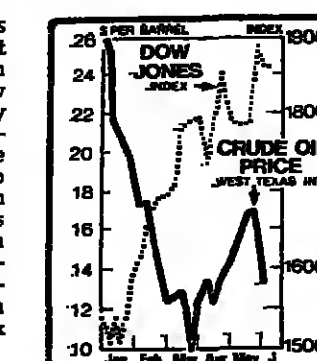
Before meeting last Wednesday to draw up its report, the EPG is understood to have rejected a request from the South African Government for further clarification of its proposals for promoting a peaceful dialogue between whites and blacks in the republic.

The members of the group, who have suggested the release from prison of Mr Nelson Mandela, former leader of the banned African National Congress (ANC), and the legalisation of the ANC itself considered Pretoria's initial reaction to their proposal to be too negative to merit further discussion.

THE LEX COLUMN

Petrodollars in reverse

The most recent spurt in markets worldwide has been based on a gut feeling that the oil price collapse in the first quarter would somehow lead to a reversal of the inflationary depression in the West that followed the oil price shocks of the 1970s. The recent series of drab growth and investment statistics in the Western economies has thus caused a new feeling of unease in the markets. The economist's lectures about lags in the world economy had earlier drowned in the din as dealers piled in for the quick fix that has not materialised.



buoyed equity markets in the spring will not work. It is not a return of funds from low spenders to high spenders. Precisely because of the earlier transformation, most of the Opec economies are no longer small ones. The West cannot just take the money and run. Opec cannot simply transfer over \$50bn a year to consuming nations over and above its existing deficit. Petrodollars created by the high fixed oil price were recycled into developing countries, many with a high dependence on income from oil. The consequences for the banking system and the economies of the unfortunate beneficiaries are all too familiar. Today the question is how Japan, the world's biggest net importer of oil, will cope with the increase in its own colossal surpluses before the energy markets tighten again.

Distortion

Lags aside, notions that the third oil shock would be a mirror image of its predecessors have foundered on the hard fact that net OECD oil imports in 1985 were 15.6m barrels a day against the 1979 peak of 26.5m. Disinflation, rather than deflation, and a wholly different version of income recycling offer a distorted reflection of the 1970s. If there is any element of the quick fix to be seen, it is the once-off disinflationary effect of halving the price of a key commodity.

There is an impression in some quarters that the battle against inflation has been more or less permanently settled by Sheikh Yamani. In reality the entire disinflation is in the pipeline, and any upturn in oil prices beyond the kind of short-lived spurt seen in May might kick-start the old inflationary process. What last month's run up in the price of West Texas crude from \$12 to \$17 (and back again) has achieved is a renewed uncertainty about the path of oil prices, and increased difficulty in assessing even short-term growth prospects.

In the US the oil price fall was talked of as an alternative to a speedy implementation of the 25 per cent standard tax rate. But it has not worked out that way, with inevitable consequences for the emotions of British fund managers. Record first-quarter profits from BP and Shell show how the oil majors have been able to use controlled markets to engineer remarkable price stickiness.

Although the Government castigated the oil companies for their oligopolistic practices, HMG has been equally adept at using a monopoly position in the energy field to short-change the consumer. British Gas,

while losing industrial custom to oil, is imposing an increase on domestic clients. Last Thursday's statement by Mr Peter Walker that a 3.5 per cent reduction in electricity standard rates takes due account of the oil price fall appears the more remarkable against a fuel oil spot price fall from \$135 to \$50 a tonne this year.

In Japan there has been a similar process, or rather lack of process. Tokyo Electric is set for a profit windfall of around ¥700bn this year, which appears earmarked for major capital projects rather than the pockets of customers. In countries where energy markets are not controlled there is the prospect that cheaper oil means higher oil imports, despite the best efforts of the International Energy Agency. In the US there is a move away from smaller cars and back to gas-guzzlers, while West German householders have been stockpiling heating oil on a grand scale. If Saudi Arabia had not come to believe that crude price would lead to a strong rise in demand for Opec oil, it would hardly have stuck with its present policy.

One indication that the equity markets may be imbued with contradictory assumptions is that while cyclical stocks have been dramatically marked up on cheap oil, the oil companies whose asset values have imploded have not suffered a sell-off of symmetrical proportions. The oil sectors in New York and London both show slight gains on their position at the beginning of the year, thus obstructing potential predators, who are waiting for prices to fall into line with likely future assets.

The crude mirror image of the wealth recycling which may have

buoyed equity markets in the spring will not work. It is not a return of funds from low spenders to high spenders. Precisely because of the earlier transformation, most of the Opec economies are no longer small ones. The West cannot just take the money and run. Opec cannot simply transfer over \$50bn a year to consuming nations over and above its existing deficit. Petrodollars created by the high fixed oil price were recycled into developing countries, many with a high dependence on income from oil. The consequences for the banking system and the economies of the unfortunate beneficiaries are all too familiar. Today the question is how Japan, the world's biggest net importer of oil, will cope with the increase in its own colossal surpluses before the energy markets tighten again.

In the first instance the Japanese, assiduous savers, are piling into US Treasury Bonds at a rate of billions of dollars a month. That supports the prospects of growth in the US. Interest rates would rocket if the Japanese demand for US Treasuries fell. That sustains the mainline economist's view, that the secondary effect of the oil price cut - growth through more and cheaper money - is now dawdling. But most US capital spending indicators do not suggest that business has sensed a rapid upturn in demand. Perhaps this is a reflection of the accompanying fiscal squeeze as the US deficit starts to be reduced.

Overwhelming

The Japanese will be more active with their money than were the Arabs. Despite the appearance of Western overcapacity, the sharp rise in the yen makes it more migrant than ever for Japan to pursue its strategy of setting up industrial bases throughout the West. Up to now, Japan has overwhelmingly put its surplus into fixed-interest securities. But Japanese institutions are now beginning to put more weight into equities. The recent stellar performance of the Tokyo market is tangible evidence, but that market alone will struggle to absorb the volumes of money available. The prospect of a Japanese drive into foreign equity markets is palpable: the wise investor may wait for that buying wave to come in before trying of low-cost, oil-fired equities.

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FINANCIAL TIMES SURVEY

Sweden

Two events have had a powerful impact on Sweden's political and social life: the assassination of Olof Palme and the Chernobyl nuclear disaster. The country is experiencing improved short-term economic prospects, but Prime Minister Ingvar Carlsson must seek ways to stimulate long-term growth.

Year of hard realities

WITHIN a few months Sweden has been shaken twice, by the assassination of Mr Olof Palme, the Prime Minister, and by the Chernobyl nuclear plant disaster in the Soviet Union—two traumatic events that pose profound and disturbing questions in the nation's political institutions.

Unused to political violence, the Swedes were stunned by the murder of Mr Palme on an open street in the middle of Stockholm. Nearly three-and-a-half months later the killer has not been caught. The police still know neither his identity nor his motive.

The ruling Social Democrats moved with extraordinary speed to fill the political vacuum left by Mr Palme's death. Within 24 hours of the murder the party's national executive had decided to rally behind Mr Ingvar Carlsson, Deputy Prime Minister and for nearly 30 years one of Mr Palme's closest colleagues, as the next party leader.

In his first three months in office Mr Carlsson has scarcely put a foot wrong.

Riding the wave of public sympathy and the instinctive longing for national unity that inevitably followed an assassination, the Social Democrats are experiencing an unprecedented surge in popularity. According to recent opinion polls Mr Carlsson himself is enjoying the highest vote of confidence achieved by any Swedish political leader, since

the 1938-45 war. He has pledged himself to continue the policies pursued by Mr Palme. He has left the Cabinet almost unchanged, with the only move of significance the appointment of Mrs Birgitta Dahl, one of the Social Democrats' rising stars, as Environment Minister as well as Energy Minister.

Since the Chernobyl disaster a heavy burden has fallen on her shoulders. As the first country to detect the radioactive

By Kevin Done
Nordic Correspondent

fallout from Chernobyl, Sweden has been deeply shaken by the now obvious risks caused by nuclear power station accidents beyond its frontiers, and is having to carry out a comprehensive reappraisal of its own nuclear power programme.

Sweden was already the first country in the world with a heavy dependence on nuclear energy — which now accounts for nearly half of electricity generation—to have committed itself definitively to closing down its reactors. That decision was made after a referendum in 1980 showed that a majority of Swedes favoured a phased abandonment of nuclear energy.

Nuclear power provoked one of the most bitter and divisive political debates, in the late 1970s, that the country had even seen. It was this issue

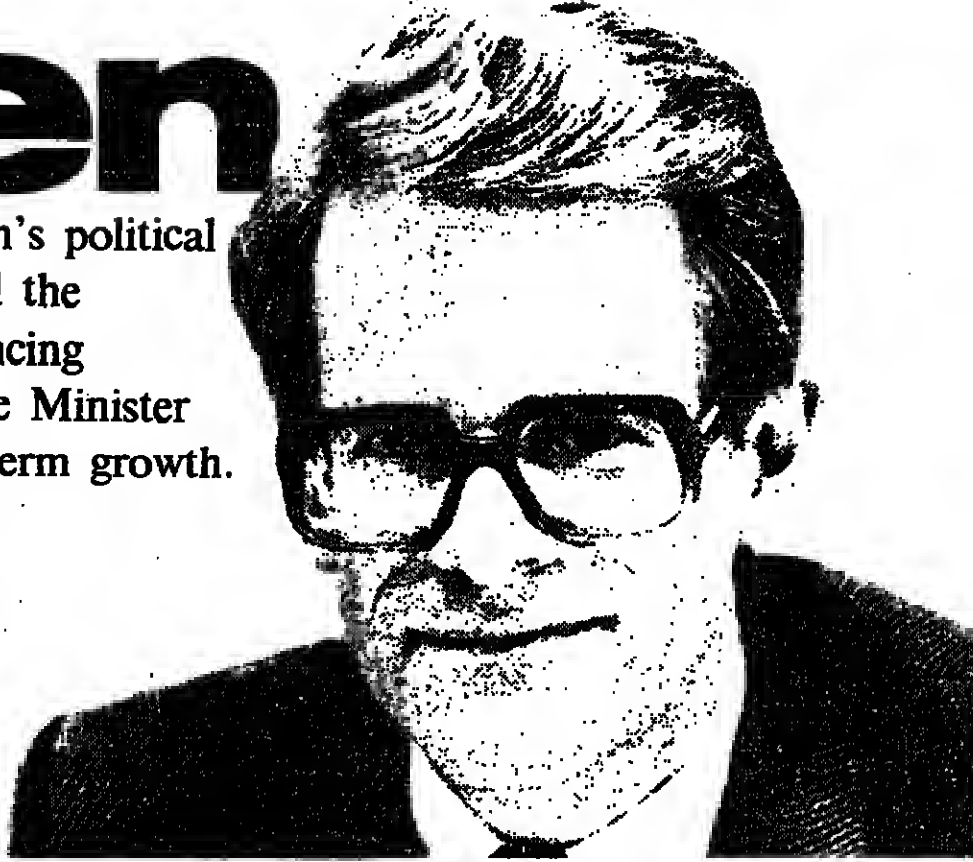
that helped the Centre Party, traditionally the representative of agrarian and environmental interests, to build its support to unprecedented levels in the elections of 1978 and 1976, and bring to an end, if only temporarily, the Social Democrats' 44 years in power.

It was also disagreements about nuclear power that brought down one of the coalition governments led by Mr Thorbjörn Fälldin, the former Centre Party leader, and few nations were as heavily influenced as the Swedes by the 1979 nuclear accident at Three Mile Island in the US.

Now the Centre Party, with its fortunes at a low ebb, is again taking up the cudgels on this vital issue and along with the Communists is demanding that Sweden's 12 nuclear reactors should be phased out before the year 2010, the date agreed after the referendum.

During the past 12 months Swedish industry in particular has begun to wage a campaign to have the decision of the nuclear referendum overturned on the grounds that the dearer electricity that would result from abandoning nuclear power would seriously undermine its international competitiveness.

Chernobyl has baited that bandwagon. But the Government has still to show that it can come up with a credible alternative to nuclear power for all its talk of energy conservation and alternative technologies. Strong environmental lobbies already exist to oppose



Ingvar Carlsson: leader suddenly given the reins of power

both an expansion of hydro-power and an increased use of coal.

Meanwhile the mistrust of nuclear power can only increase, as the more long-term consequences of the fallout from Chernobyl become apparent. Some seven weeks after the accident the Swedish authorities were still not ready to allow farmers in the worst contaminated areas to let their cows out to graze.

Farmers in those areas have been advised to plough up their meadow land and move radioactive grass cuttings to waste piles at isolated locations on their land.

Information as to the extent of the contamination and on what protective measures are necessary have often been conflicting; and despite official attempts to calm the nation's fears it is clear that there is again a growing unease about nuclear power which could have significant implications for the political parties.

Top priority of the anti-nuclear campaign is to force the closure of the Barsebeck nuclear plant in southern Sweden. The two Barsebeck reactors are only a few miles from both Malmö, the third largest city in Sweden, and Copenhagen, the Danish capital, in the most densely populated area of Scandinavia.

In a recent vote the Danish Parliament called officially on Sweden to close the two reactors.

While the long-term implications of the fallout from Chernobyl on political debate in Sweden are still unclear, there is little doubt that the murder of Mr Palme has abruptly and brutally marked the end of an era. Sweden is a greater place without him.

He had not always been loved. He aroused strong emotions in both his admirers and his political detractors and he had an uncanny instinct for firing and irritating his opponents. In the often colourless

atmosphere of Nordic politics, Mr Palme shone the more brightly, however, and he was unrivalled as a rabble-rousing orator.

Olof Palme was the undisputed leader of a Social Democratic party that has dominated Sweden for more than half a century, creating in the process the world's most advanced welfare state, and he was only the party's fourth leader since it was founded in 1889.

His passionate interest in international affairs gave Sweden a voice on the world stage out of all proportion to its size, and it is in his role of international statesman that he will be most sorely missed — not least in the developing world, whose cause he championed with unflagging zeal.

The rapid appointment of Mr Ingvar Carlsson as the new party leader (and Prime Minister) probably signals more a change of style than of substance in Social Democratic party politics, but it does open

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change of leadership. With the Opposition parties in a state of transition and unable to offer much of a challenge, Mr Carlsson has been able quickly to consolidate his position. His first months in office have been marked too by a growing optimism about the economy—at least in the short-term—helped largely by falling oil prices, the weaker US dollar and lower interest rates.

On the labour front it appears that the "honeymoon" period for the Carlsson Government is already over, however, and the first strikes of the 1986 wage round have broken out in the public sector — mainly in the Health Service among doctors, dentists and social workers.

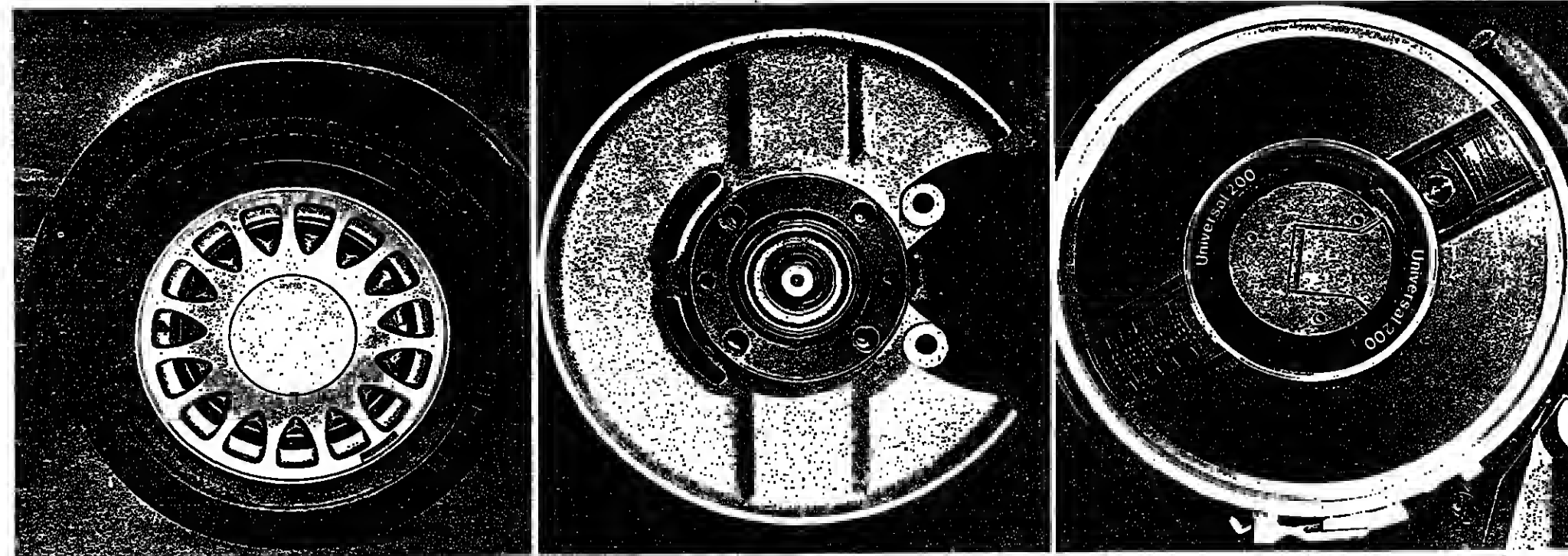
Sweden's system of highly centralised national wage bargaining—a major element in the so-called "Swedish Model"—has been coming under increasing pressure for several years. There are strong indications that the two-year national pay deal, struck in the spring as a framework settlement for the private sector, will present serious problems at sector and local level if the 9-10 per cent ceiling (over the two years) is not to be exceeded.

On the surface life in Sweden appears to have returned to normal, but a terrible uncertainty must remain as long as Mr Palme's assassination remains unexplained and his killer is still at large.

Growing frustration has already placed the focus of the investigation as much on alleged bungling by the police as on the murder hunt as such. The police have been accused of seriously violating the rights of one suspect—clearly —while the chief prosecutor in Stockholm has resigned from the case in protest at police interference with his work.

According to Mr Hans Holmer, the Stockholm Police chief who is leading the hunt: "The investigation into the murder of Olof Palme is a nightmare. It is impossible to imagine a harder case to solve."

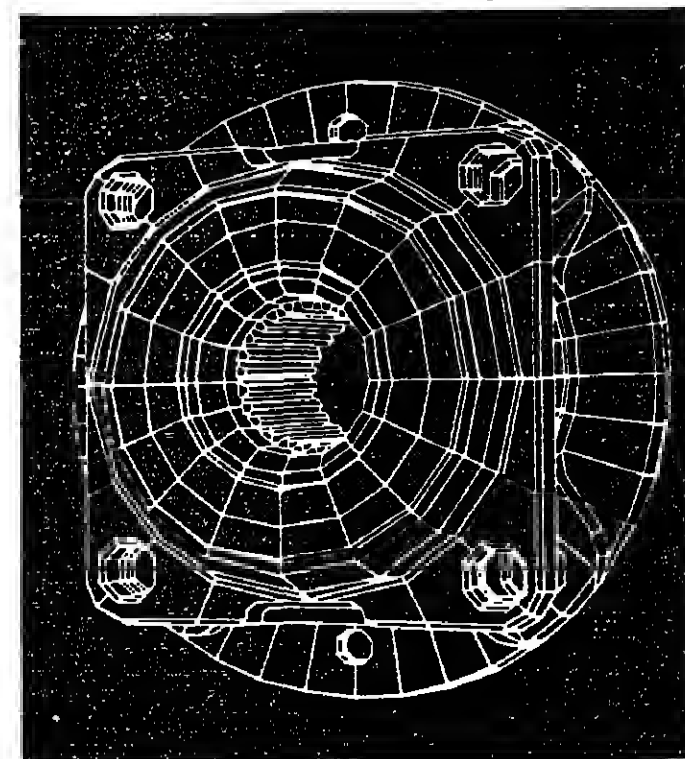
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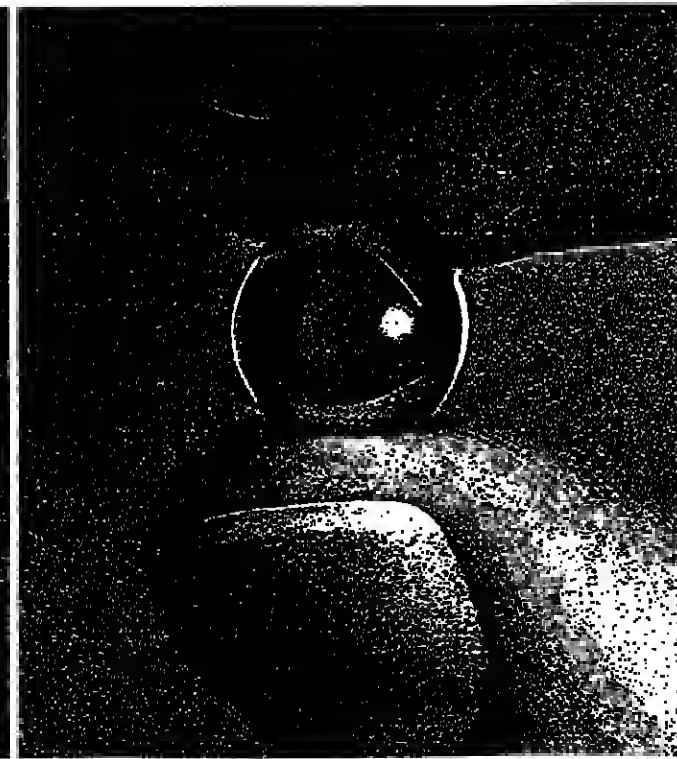
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Sweden 2

Politics

Grief for Palme strengthens unity

WITH the funeral of their murdered Prime Minister, Olof Palme, earlier this year Social Democrats reached a new apogee. By the standards of Western democracy their hold on power was already phenomenal.

By the time of the next general election in September 1988 they will have ruled Sweden for 50 of the past 56 years and at present they look unshakable.

With the memorial ceremony for Mr Palme they took their hold over Sweden a stage further and the party became the rallying point in the search for national unity. Suddenly criticism of the Social Democrats seemed as bad as an attack on Sweden itself and the party's Swedish values that Mr Palme had made known far beyond the Nordic countries.

Although he had been murdered while in office the funeral was a Social Democratic rather than a state occasion. Behind the simple white coffin there was one Swedish national flag, but it was only one of four. There were two red flags — one for the party and one for the trades unions — as well as the flag of the United Nations.

The city hall balconies were covered with hundreds more red flags, the standards of the party, of the trades union districts and the special interest group within the party itself. It was the flags of the labour movement, rather than the Swedish national flag that lined the route taken by the cortege to the graveside.

The funeral was organised by the Social Democratic Party and not by the state. The memorial ceremony — deeply moving with its themes of youth and hope — was a secular occasion officiated over by Mr Sten Andersson, Foreign Minister and for more than 20 years General Secretary of the party.

King Carl XVI Gustaf was present, but he spoke after Mr Ingvar Carlsson, who only days before had officially taken over the offices of Prime Minister and chairman of the party, and Mr Sten Andersson.

Social Democratic Party gatherings usually end with the singing of the Internationale. Out of deference to the hundreds of international leaders and heads of state that attended the funeral, the Social Democrats explained that on this occasion they had decided not to sing the Socialist anthem to show respect

for the differing opinions and beliefs of some of the foreign guests.

The National Anthem was not sung. Instead the party chose the song "Vi Bygger Landet," (We Build the Land), which is almost as popular among the Swedish labour movement as the Internationale.

It could hardly offend foreign visitors, and Social Democratic sensibilities towards the differing beliefs of some of their guests clearly did not stretch to those invited from the Swedish political opposition.

The funeral ceremony was the culmination of the extraordinary closing of ranks that followed the waves of shock and national grief over the assassination of the Prime Minister. The manner in which the Swedes buried their murdered leader showed, perhaps more clearly than any other single event, just how far the Social Democrats have come in making their cause synonymous with that of Sweden itself.

At the best of times the splintered non-Socialist opposition parties have faced an uphill task to unseat the Social Democrats. In more than 50 years they succeeded only twice — at the elections of 1976 and 1979. Now, after the loss of Olof Palme, their task appears almost impossible.

A wave of sympathy towards the Social Democrats has been reflected in the sharp jump in their most recent opinion poll ratings. The latest poll taken by Sifo, the Swedish opinion research institute, and published at the beginning of June gives the Social Democrats fully 48 per cent of the support.

In the first poll, after Mr Palme's murder in February, the Social Democrats made a gain of fully six percentage points, unique in a Sifo poll.

A result of this wave of new support is that the Socialist bloc — comprising the Social Democrats and the Communists — now has an overwhelming lead over the Opposition, with 52 per cent of the support compared with 48.5 per cent for the four non-Socialist parties — the Liberals, the Conservatives, and the Centre Party together with its small ally, the Christian Democrat Alliance.

Even Svenska Dagbladet, the arch-conservative Stockholm morning newspaper, observed in a recent editorial: "Seldom has Swedish social democracy



Olof Palme: his death increases pressure on the parties to compromise

appeared stronger. The opinion ratings are high both for the party and its leader. The Government is facing hardly any problems in the Riksdag (Parliament).

"Its theoretical dependence on the Communist party does not appear to play any great role in practice. The Government manages regularly to negotiate an agreement with one of the opposition parties without having to pay much of a price in the form of political concessions."

Since the election in September last year the political landscape has changed quite dramatically with the disappearance of the two personalities who had dominated Swedish political life for much of the 1970s and the first half of the 1980s, Mr Palme and Mr Thorbjörn Fälldin.

Mr Palme took over the Social Democratic leadership and the office of Prime Minister in 1969 and led the party through six elections, including the two defeats in 1976 and 1979. The Social Democrats are used to continuity and he was only the fourth leader the party had had since it was founded in 1889.

Mr Fälldin was the man, who at least temporarily, managed to stop the Social Democratic advance. A farmer and the

leader of the Centre Party he was almost the antithesis of Mr Palme. Against the intellectual agility and rhetorical brilliance of Mr Palme he often appeared rather cumbersome, but he also displayed a solidity and sincerity that won the support and affection of many Swedes.

Little love was lost between Palme and Fälldin and as long as they were the leaders of their respective parties there appeared no chance of closing the gap between Right and Left that opened up during their respective years in government.

Mr Palme spoke of "an outstretched hand" towards the Opposition, but in practice the phrase remained rather empty. Mr Fälldin in any event, was openly sceptical. He displayed a mistrust of Social Democratic motives and a belief that whatever words they might use to sweeten their offer their actions showed that they were intent on pursuing divisive rather than conciliatory policies.

Mr Fälldin's constant aim was a non-Socialist majority in the Riksdag, and controversial issues such as the Social Democrats' wage-earner fund system ensured that the Centre Party remained firmly in the non-Socialist camp.

The wage earner funds, established at the end of 1983 after a long and bitter political fight, are designed to siphon off a part of corporate profits into trade union-controlled funds set up to buy equity stakes in Swedish industry and the Opposition parties are still committed to their abolition if they regain power.

Two months before Mr Palme's murder, Mr Fälldin fell victim to growing grass-roots opposition in the Centre Party after a series of disastrous election results. The Centre Party's vote declined to only 12.4 per cent at the last election compared with the peaks of 25 and 24 per cent respectively in 1973 and 1976.

Mr Fälldin resigned when it became obvious that he had lost the support of the committee formed to conduct an inquiry into the latest election defeat. After a brief period of infighting the party united around the deputy chairman, Mrs Karin Söder, who became Sweden's first woman party leader.

The emergence of Mr Ingvar Carlsson as leader of the Social Democrats and Mrs Söder as leader of the Centre Party has thus ushered in a new era. Political debate is likely to lack the

sharpness and strong polemics of Mr Palme, and his replacement by Mr Carlsson should improve decisively the Social Democrats' chances of finding a majority for their policies in the Riksdag issue by issue without having to rely too heavily on the Communists — except when it suits them.

After all the Social Democrats are a minority Government with only 159 seats in the Riksdag compared with the 171 seats of the non-Socialist bloc. They depend on the 19 Communist seats to give the Socialist bloc 178 seats and an overall majority of seven.

The tricky balancing act that appeared to face the Social Democrats in the Riksdag after the election has not been necessary, and they have managed with relative ease to steer their way through the Parliamentary rocks and shoals.

The personalities of Mr Carlsson and Mrs Söder mean that there is greater room for compromise, but the effect of Mr Palme's murder also means that the Government is added pressure on the Opposition to compromise. Mr Carlsson's first address to the Riksdag as Prime Minister, Mr Carlsson made clear that under his leadership the government would seek closer links to the Opposition.

"Violence has been thrust upon us. We feel grief and sorrow but at the same time a sense of closeness and national unity. The Swedish people expect us now to take joint responsibility for our country and its future without contrived friction and unnecessary conflict," Mr Carlsson said.

The Government, he added, would hold an "open door" to co-operation with the Opposition. But that Opposition still seems badly divided. Shifts of opinion do occur in the Swedish electorate, despite the Social Democrats' long years in power.

But changes tend to occur between the so-called bourgeois parties rather than between the Socialist and non-Socialist blocs. At the last election it was the Liberals' vote that emerged triumphant under the new leader Mr Bengt Westerberg, who pushed their share of the vote up to 14.2 per cent from only 5.8 per cent in 1982.

In general the opinion polls since the election of the Liberals have even managed to take the lead in the non-Socialist camp, pushing a rather lacklustre Conservative Party into second place.

According to the latest Sifo poll, although the Liberals have lost ground they were still marginally ahead with 48 per cent against the 17 per cent support for the Conservatives and 10 per cent for the Centre Party (without the Christian Democrats).

An important new element entered the Swedish political climate with the Soviet nuclear pact disaster at Chernobyl, which would have far-reaching consequences for the party political balance. The Centre Party, which led the anti-nuclear debate during the later 1970s, had seen its fortunes cover slightly in the weeks since the Chernobyl accident.

Both the Centre Party and the Communists are pressing hard for an earlier phasing-out of nuclear power than the year 2010 agreed after the 1980 referendum; and the nuclear issue could again re-shape the Swedish political map in the late 1980s as it did in the 1970s.

Kevin Done



Chernobyl: the Soviet nuclear disaster could have unforeseen consequences for Sweden's party political balance

Taking over with ease

IT TOOK Sweden's Social Democratic Party less than 24 hours after the assassination of Mr Olof Palme to close ranks behind a new leader, Mr Ingvar Carlsson.

As Deputy Prime Minister Mr Carlsson had been one of the earliest to arrive at Rosenbad, the Government chancellery, in the office cold dark hours of Saturday March 1 as the shocking news began to spread that Mr Palme, the Prime Minister and the Social Democratic undisputed leader since 1969, had been shot dead in a street in central Stockholm.

The display of party unity was impressive. Under almost any other circumstances the choice of Mr Carlsson would have appeared far from automatic — at least to outsiders — but it is a tribute to his achievement in his first three months in office that today the wisdom of his appointment is scarcely questioned.

Even to Swedes Ingvar Carlsson has been something of an unknown quantity, apparently content to work in the shadow of Olof Palme for much of his political career. The apparent ease with which he has taken over the reins of power, however, says much of the detailed knowledge he has picked up both of the workings of government and of the party in almost 30 years in politics.

After a year he was back in Sweden to take over as chairman of the SSU, a job in which he travelled the country, becoming personally acquainted with many of the budding Social Democrat politicians who today hold positions of responsibility in both local and central government.

In 1963, he gave an interview as SSU chairman on the theme of "If I were prime minister..." He wanted fewer old-timers in parliament with other jobs besides politics; he wanted to promote a professorship in sociology, to pull down the class walls around the foreign ministry and open the diplomatic service to ordinary people. He wanted to close the Swedish Embassy in South Africa and open new embassies in Africa and Asia.

Mr Carlsson was elected to parliament in 1966 as the country's youngest MP and three years later he became a junior minister in the Cabinet Office of Tage Erlander, who in 1969 became Minister of Education and in 1973 Minister of Housing. He has been a member of the party executive since 1972.

In his years in government and opposition Mr Carlsson has had to deal with some of the thorniest political problems of the day, seeking to reconcile different streams within the

labour movement. He was Education Minister in a period of student unrest and university reform, and in opposition he had the task of building a social democratic platform on the issue of the development of nuclear energy, a debate which split Sweden and threatened to split the Social Democratic Party.

With all these jobs he remained in the shadow of Olof Palme, choosing to work within the party to develop future strategy rather than to compete with Palme for the limelight on the domestic or the international stage.

Carlsson led the crisis group that plotted the Social Democrats' party programme "A future for Sweden" in the run-up to the 1981 party congress. The work prepared the ground for their election victory in 1982 with the so-called economic policies of the Third World.

It was also Carlsson who prepared the ideas programme for the 1984 congress. The right-wing opposition had tried to kindle a debate on freedom and the right of individual choice instead of state direction. In a country with the biggest public sector and the heaviest tax burden in the Western world, the conservatives appeared to have found a winning formula. It was Ingvar Carlsson who was given the job of leading the ideological counter-attack, which he did with a programme of ideas entitled: "The future in the hand of the people — social democratic programme for citizenship and freedom of choice."

From 1982 onwards he was Deputy Prime Minister, playing the role almost of a one-man cabinet. He was called sometimes the Minister for the Future, seeking to come up with strategies for dealing with problems ranging from how to educate the population to live with computers, in devising new strategies for combating crime and improving child care provisions.

However unexpected his appointment as Prime Minister, he has performed impressively in his first three months in office. Little more than a month and a half after he took over the leadership as many as 82 per cent of Swedes expressed confidence in him, the highest poll rating ever achieved by a Swedish political leader.

Having taken over in the most tragic circumstances, Mr Carlsson has firmly secured his initiative in Swedish politics. He now has to prove he can keep it a heavy burden for a Social Democratic leader in a country where the party is used only in winning.

David Lennon

Foreign Policy

Consensus on the rule of law

SWEDISH FOREIGN policy may at times appear quixotic, but even when political leaders are deeply worried about distant injustices it would be wrong to think that this concern is purely altruistic.

"Rightness in itself" is the explanation offered by officials and others of the panchant of Swedish leaders to speak their minds about wider issues apparently unconnected with the problems of this Nordic nation.

The guiding principle of Swedish foreign policy is security through non-alignment in peacetime and neutrality in the event of war. It therefore seeks to avoid falling under the influence of the nearest superpower, the Soviet Union, while not becoming a menacing outpost of the distant superpower, the US.

Relations with the US were icy as a Nordic warrior during the Vietnam War. Now they are pretty cool with the Soviet Union because of incursions by its submarines into Swedish territorial waters.

This was one of the key issues raised in Moscow in April when the new Prime Minister, Mr Ingvar Carlsson, made the first visit by a Swedish leader to the Soviet capital in recent years. Little real progress was made in the discussions, but officials believe that the visit did help to improve the atmosphere.

Swedish suspicions of Moscow have reached an all-time high, according to a recent opinion poll. This showed that 87 per cent of Swedes perceived the Soviet Union as either unfriendly or a threat. The essence of Stockholm's attitude towards Moscow is to try to

maintain good relations so that Sweden will not be harmed.

Sweden may have become almost a pariah in the modern world with the advocacy of peace and disarmament, but the Swedes are not starry-eyed romantics. Military service is compulsory and high defence spending is accepted as essential if potential enemies are to be convinced that an invasion would be difficult, costly and bloody.

The Swedes believe that they have avoided war for 170 years not only because of geographical and political circumstances but also thanks to their policy of neutrality allied to strong preparations for self-defence.

The policy of neutrality in wartime does not mean that Sweden is neutral in the views it expresses. It was one of the first western countries to criticise publicly US involvement in Vietnam. It has been outspoken about the Soviet invasion of Afghanistan and the recent US air raid on Libya.

"We condemn the Soviet invasion of Afghanistan because we don't want them here," senior government official said in a frank explanation of what he would say as Swedish "mediator." Our international involvement is part of our defence efforts," he explains.

The Swedish Government, whatever party or parties are in power, firmly believes that the survival of small nations in a world of superpowers depends on scrupulous observation of the rule of law in international affairs.

caused any change in Swedish attitudes. While the personal style of his successor, Mr Carlsson, may be more muted, he will continue the same policies. Officials explain that these were reached by consensus and not through the dictates of one politician.

The defence issue has become much more pointed since the "whisky on the rocks" incident in 1981 when a Soviet "whisky-class" submarine ran aground on rocks near Krivis-krona. This irrefutable proof that Soviet submarines patrol inside Swedish territorial waters came as a severe shock to the Swedes, despite their earlier suspicions.

It set off a new debate about defence policy which concentrated on the issue of spending levels. The allocation of resources for national defence is now under review by a minority committee. After receiving its recommendations, the Government will draft a bill to be tabled in Parliament.

The main debate concerns the level of spending rather than the strategic and tactical concepts which underlie defence policy. The Government proposes to spend SKr 7bn for the period 1987-92 was publicly criticised by the military which then demanded that spending be increased by SKr 6bn.

The fact that the proportion of Gross National Product devoted to defence fell from nearly 3 per cent in the 1960s to just over 2 per cent in the 1980s was hardly discussed.

Some Swedes feel there is need to question current defence doctrine, which assumes that any Soviet aggression would come only in the context of a much broader conflict

Advertisement for S-E-Banken featuring a large image of a glass sculpture titled 'Thousand Windows' and text describing the bank's international network and services.

Advertisement for S-E-Banken (Skandinaviska Enskilda Banken) with text describing its international financial activities, unique qualifications, and services to customers.

Large vertical advertisement on the right side of the page, partially obscured, with the text 'We are...' and 'ba...' visible.

Sweden 3

The Economy

Oil price fall lifts the gloom

SWEDEN'S short-term economic prospects have improved substantially thanks to falling oil prices, the lower dollar exchange rate and reduced international interest rates. The gloom that pervaded most economic forecasts towards the end of last year has lifted. According to Mr Kjell-Olof Feldt, the Swedish Finance Minister, Sweden now has "a unique opportunity to eliminate remaining imbalances in the economy and to establish a sustained low rate of inflation."

Whether such confidence is justified remains to be seen. The country's ability to slow labour-cost increases to the level of competing countries is still under question, and there is little doubt that Sweden's international competitiveness will be further eroded this year.

The country faces serious labour market difficulties with particularly intractable problems in the public sector, where negotiations could drag on until the autumn. Because of the big carry-over from last year public sector wages will rise by at least 6 per cent in 1986, even without the addition of a single ore in this year's negotiations.

The Government hopes to negotiate a two-year agreement with virtually no additional increase in 1986. Such an approach appears to guarantee a long hard summer on the labour front. Strikes had broken out in the health service among doctors and social workers in May.

In the private sector national framework agreements have been reached by SAF, the Swedish Employers Federation, with both the blue collar and the white collar workers' union confederations, but translating these agreements into binding settlements at local level is fraught with serious problems.

Crucially, however, the agreements cover two years and give wage increases in 1987 below the 1986 level. According to the pay deal struck at national level, wage costs are supposed to rise by 9-10 per cent over the two years, but many economists believe wage drift could still push up industrial wages this year by 7-8 per cent.

There is a gaping loophole over the development of the rate of inflation. If this exceeds 3.2 per cent at the end of the year the unions can demand fresh negotiations, which could mean that trouble has simply been postponed.



Kjell-Olof Feldt: opportunity to eliminate remaining imbalances

Equally any wage drift above an agreed level of about 1.5 per cent in 1986 is supposed to be subtracted from next year's rises, but opinions vary on how this clause should be interpreted.

Dramatic changes in the international economy mean, however, that Sweden has a better chance than for many years to deal with structural imbalances. The official forecasts presented in the revised national budget for 1986/87 presented a much more optimistic picture than the budget published in early January.

On a per capita basis, Sweden remains one of the largest oil consumers in the world. Largely because of falling oil prices the current account of the balance of payments is expected to show a SKr 3.4bn (€314m) surplus instead of the SKr 5.3bn deficit forecast in January.

Sweden's external payments position has improved markedly this year. Last year it ran up a current account deficit of SKr 9.4bn compared with a modest surplus of SKr 3.2bn in 1984, the first surplus since 1973.

In the first three months of 1986 the current account showed a surplus of SKr 2.9bn compared with a deficit of SKr 4.2bn in the same period of 1985. In the first four months of 1986 the trade balance swung into a surplus of SKr 1.1bn from a surplus of only SKr 1.7bn a year earlier. According to the Central Statistical Bureau nearly half the improvement stemmed from the steep fall in oil prices.

The underlying trade picture, excluding oil and ships, has also brightened this year, however, while the value of exports in the first four months rose by 5 per cent, the value of corresponding imports has fallen by 1 per cent.

Falling oil prices and lower international interest rates are also helping to bring inflation to the lowest level since the 1960s. Optimistically, the Government is forecasting that the 12-month rate of consumer price inflation will have declined to little more than 2 per cent by December with an average increase for 1986 of 3.5 per cent.

Inflation at the end of April

was down to 4.5 per cent on a 12-month basis and is forecast to fall to 2.3 per cent by December compared with 5.8 per cent in December 1985 and 8.1 per cent in December 1984.

Worryingly Sweden still has some way to go to close the inflation gap with its chief rivals in international markets. The rate in its eight main trading partners had already fallen to an average 2.3 per cent in March with West Germany and the Netherlands showing the lowest rates of increase at just 0.1 per cent and 0.7 per cent respectively.

While the growth of the Swedish economy will lag behind the average for the OECD countries this year, the outlook has improved over the last six months. In late April the Government raised its forecast for the growth of gross domestic product (GDP) to some 2 per cent from the January level of only 1.6 per cent.

GDP rose last year by 2.3 per cent. This was less than the 3.4 per cent achieved in 1984—a year of very strong export-led growth—and marginally below the level of 2.4 per cent reached in 1983, but it was still

the third year in succession that the growth rate had surpassed the 10-year trend of a meagre 1.6 per cent annual growth.

Compared with the previous years of stagnation and recession, the Swedish economy has staged a sustained recovery since late 1982. At the same time the country has managed to maintain one of the lowest levels of unemployment in the industrialised world, with the number officially out of work under 3 per cent. The achievement is still impressive, even if the figure is nearly doubled to include those benefiting from job creation measures or re-training programmes.

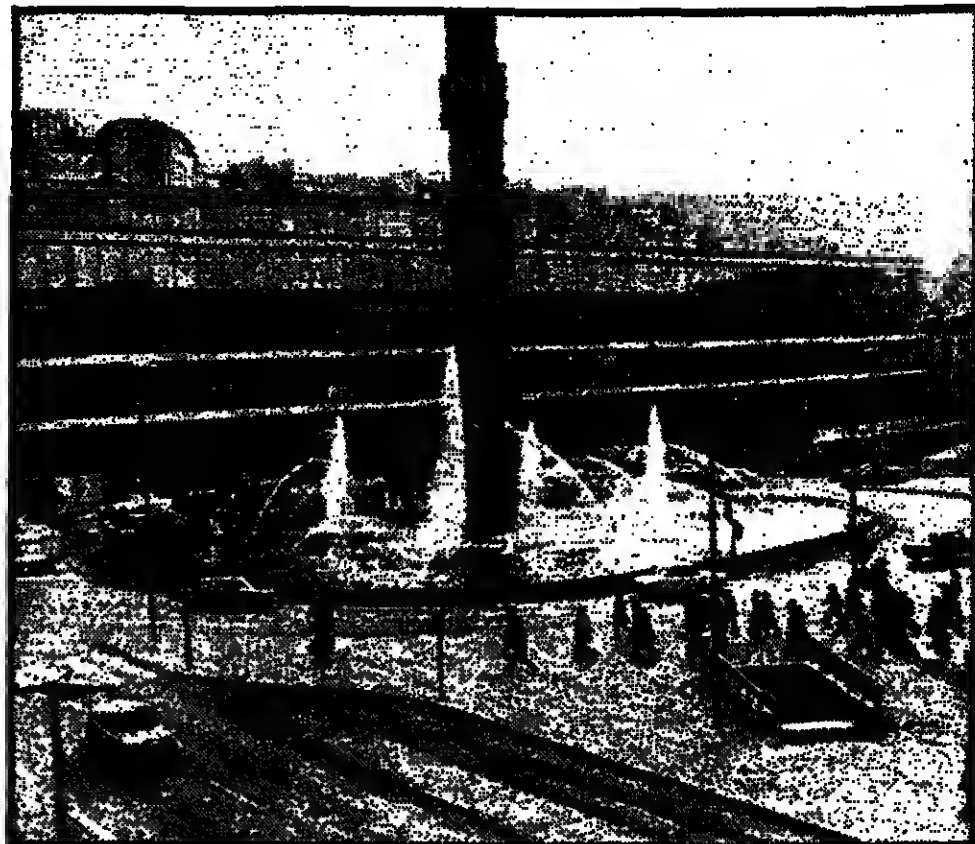
Private consumption and investment provided the main impulse to growth last year. With a rise of 2.7 per cent consumer spending increased sharply in comparison with recent years. The Government expects private consumption to play an important role again in 1986 with a further rise of 2.7 per cent helped by a stronger development of real disposable incomes.

After several years of falling real wages when high nominal increases were quickly eroded by rampant inflation Swedes are now enjoying a modest improvement in purchasing power. Large increases were reported last year for purchases of new cars, radio and television sets as well as clothes and shoes, and the upsurge has continued into 1986.

In March the retail sector enjoyed its strongest single month so far in the 1980s. Retail sales volumes were 4.4 per cent higher in the first three months than in the same period last year. For the moment the improved current account position has left some room for higher consumer spending, which inevitably sucks in higher import volumes, but the strength of private consumption is causing some concern in the Finance Ministry. It is also cited by Mr Bengt Dennis, governor of the Swedish Central Bank, as an important reason for the authorities' continuing caution in lowering interest rates.

For Swedes, however, the consumer boom has been a long time coming, and in the longer perspective of the last 10 years the development of private consumption has been rather weak. Since 1975 it has increased by only 6.8 per cent compared with a corresponding figure for the OECD as a whole of more than 30 per cent.

Real disposable income rose



Sweden's Parliament, the Riksdag. One of the Social Democrat Government's successes has been to prune back the state budget deficit

by about 2 per cent last year, but it was still only 1.5 per cent higher than in 1975. At the same time household saving continued to decline and the saving ratio was calculated to have fallen below zero last year.

With the highest tax burden in the Western world and the largest public sector, the Swedish Government is now seeking to hold back public expenditure to make room for real wage increases.

One of the undoubted successes of the Social Democratic Government in the last four years has been to prune back the bloated state budget deficit. Here too it is receiving welcome assistance from the weaker US dollar and lower interest rates. The latest forecasts of a budget shortfall of some SKr 45bn in the year 1986/87 show that the deficit has been almost halved since 1982/83.

The government claims that it intends to persevere with its restrictive budget policy—it is also seeking to draw in the surplus liquidity of the local authorities—and it insists that at central government level any increases in expenditure must be compensated by cuts elsewhere in the budget.

Kevin Done

The Swedish economy

Annual percentage change, volume	1984	1985	1986†
Private consumption	1.3	2.7	2.7
Public consumption	2.0	1.5	1.3
Central government	0.3	-0.1	-0.9
Local government	2.7	2.1	2.1
Gross fixed investment	3.9	6.5	1.9
of which: industry	16.5	15.5	5.0
Stockbuilding	0.7	0.7	0.3
Exports of goods and services	6.5	2.5	5.3
Imports of goods and services	4.7	7.5	6.7
GDP	3.4	2.3	2.0
Employment (no. of persons)	+26,000	+43,000	+30,000
Unemployment level (per cent)	3.1	2.5	2.7
Consumer prices (Dec-Dec)	8.1	5.6	2.3
Mining and m'n'ng (per cent)	7.1	2.1	3.0
Budget balance (bn kroner)	-75	-57	-46

† Estimated.

Source: Ministry of Finance

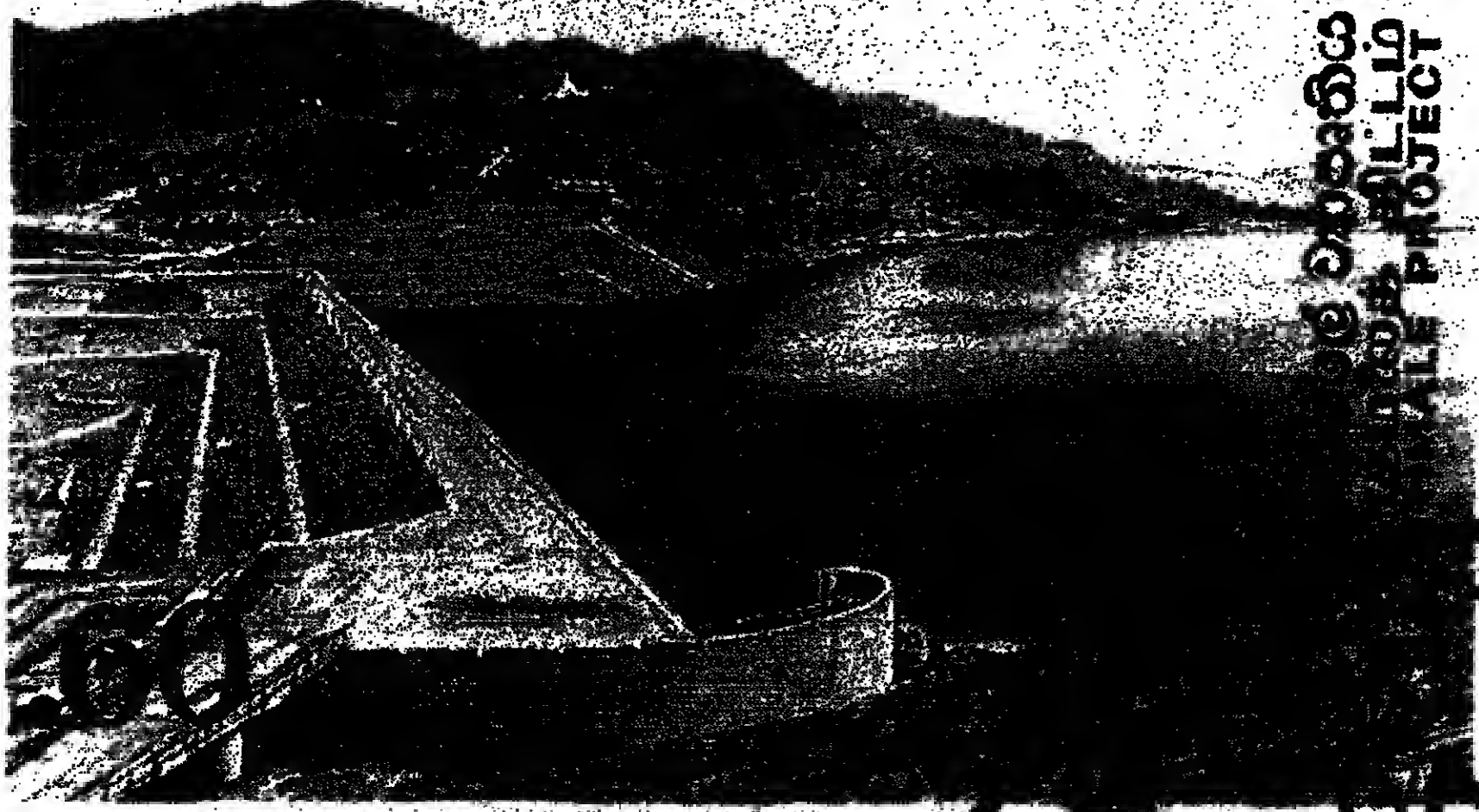
Balance on current account

	1984	1985	1986†
	(Kkr bn)	(Kkr bn)	(Kkr bn)
Exports of goods	242.5	268.0	271.1
Imports of goods	217.9	244.0	243.5
Balance of trade	24.6	16.0	27.6
Errors and omissions	-3.7	-3.6	-2.2
Balance of services	0.4	9.5	7.2
Balance of transfers	-27.1	-21.3	-25.2
Balance on current account	3.2	-9.4	3.4

† Estimated.

Source: Ministry of Finance

We also completed a cottage hospital back home in Sweden...



IN SRI LANKA, THE GOVERNMENT COMMEMORATED THE INAUGURATION OF THE EAGERLY AWAITED HYDRO POWER PLANT IN KOTMALE BY ISSUING A SERIES OF STAMPS.

Last year was a busy one for Skanska. The inauguration of a major hydro power plant in Sri Lanka and a giant irrigation system in Peru were two highlights on the international scene. On the domestic front, the projects were countless and of all sizes. In fact, Skanska is Scandinavia's largest civil engineering and building contractor, with extensive international operations. We are a full-service corporation offering a complete range of resources for construction projects of all types and sizes—from preliminary design to planning and completion of functioning installations. In our international activities we specialize in large, technically advanced projects—on a design-construct or turnkey basis. We pride ourselves on completing projects fast and on schedule. Within Skanska we run a property management business to develop and administer our substantial holdings of office, business and residential property. Skanska is one of Sweden's largest private owners of real estate. The object of our financial management operation is to enhance Skanska's established financial strength, which includes major holdings in leading Swedish industrial enterprises. Maintaining a strong liquid assets position—of great benefit to our international construction activities—is a key Skanska policy.

SKANSKA 1985:

Consolidated Balance Sheet, December 31, 1985. In millions of Swedish Kronor (SEK M). Exchange rate: SEK 1,000=USD 141 (April, '86).

Assets	Liabilities and shareholders' equity		
Bank balances	1,556	Current liabilities	4,221
Receivables	5,953	Uncompleted contracts	
Investment and development properties	3,781	Invoiced sales from beginning of contracts	17,677
	11,290	Accumulated expenses from beginning of contracts	-14,375
Other receivables	391		3,302
Shares and participations	4,127		7,523
Machinery and equipment	883	Long-term liabilities	3,772
Fixed-asset properties	947	Unpaid reserves	4,558
		Capital stock	617
		Reserves	910
		Net profit for the year	258
Total SEK	17,638	Total SEK	17,638

Consolidated revenues 1985 - SEK 14,957 M

SKANSKA
The Civil Engineering and Building Contractor.
INTERNATIONAL COORDINATION OFFICE:
Skanska, S-211 02 Malmö, Sweden. Telephone +46 (40) 144000, Telex 32375 skanska s. Telefax +46(40)114303.

Foreign Aid

Budget strain puts pressure on target

ONE OF SWEDEN'S most cherished foreign policy claims is its commitment to a high level of foreign aid spending, the cornerstone of its stance in relation to developing countries.

Carefully cultivating its image in the Third World, an important market, Sweden is officially committed to spending 1 per cent of Gross Domestic Product (GDP) on aid to underdeveloped countries.

Stockholm is quick to remind former colonial powers of the "heavy historical responsibility" they bear for their former attempts to achieve "control and systematic exploitation of the natural riches" of the Third World.

Yet a closer look at Stockholm's policy reveals that, under the pressure of budget constraints, the much-touted 1 per cent commitment (to which the country adhered from 1975-76) was temporarily suspended in 1984, and achieved in subsequent years only by what some political opponents term "creative book-keeping."

Further, not even Sweden is an exception to the general rule that foreign aid (combined here with the newly-inaugurated "balance of payments support" system) is of at least as much service to the economic and political goals of the donor as it is to those of the recipient.

About one-third of Swedish aid is tied, and as much as 50 per cent of total disbursements return directly to the coffers of Swedish multinational companies, an official at the SIDA, development agency estimates.

Roughly 30 per cent of Swedish foreign aid is channelled through the multilateral institutions such as the World Bank and UNDP. The bulk of direct aid is administered by SIDA on a programme-country basis, end by BITS, the Commission for Technical Assistance.

A relatively high proportion of Swedish aid takes the form of earlier soft loans have been written off. A system of concessional credits (with a 25 per cent grant element worth roughly SKr 500m) also exists to finance the purchase of Swedish-produced goods and services.

Of the total bilateral aid, about 45 per cent is sent to countries in southern Africa including Mozambique, Zambia and Botswana, as part of Sweden's attempts to counter South Africa's destabilising policies in the region.

This year the government has proposed total foreign aid spending of SKr 8.94bn, an increase of SKr 880m. Roughly half of this increase is to be used to write off the debts owed by the three above-mentioned nations, plus Vietnam, for goods already delivered by Swedish companies.

This so-called "balance-of-payments" aid has drawn sharp criticism, not least within the organisation for Economic Co-operation and Development's (OECD) Development Aid Committee.

Moreover, a large part of the annual appropriations in fact have not been disbursed. As one OECD source put it: "These little quirks make one wonder why they want to introduce blemishes on an otherwise good record."

The Swedes have though made great efforts to improve the effectiveness of their aid system, following several controversial and expensive large scale projects.

Among these have been the Bai Bang forestry complex in Vietnam which, although it has soaked up the bulk of the SKr 4bn in aid which Sweden has sent the country since 1970, is generally considered to have proved an expensive, unproductive and embarrassing folly.

"We've had a tendency to go into unknown countries with too big sums," the retiring SIDA



Sten Andersson, Foreign Minister: human rights no impediment

Director, Mr Anders Forss, concedes "we were in too big a hurry, we didn't know enough, and the personnel were not always adequately qualified."

The agency's newly-appointed chief, Mr Carl Tham, says "in the future, I believe we will have to be more careful with big projects."

This implies an increasing focus on "grass roots" efforts. The OECD has already cited Sweden for "the priority given to agriculture, rural development and the satisfaction of the basic needs of the poor... (its) ... aid has increasingly focused in directly productive sectors."

However, the government also faces sharp criticism at home for its attempts to use aid to further ideological and foreign policy goals not necessarily related to development, such as its support for Vietnam and Nicaragua.

Ms Margaretha af Ugglas, a prominent Conservative party Parliamentarian, has unsuccessfully spearheaded an attempt to cancel all existing Swedish commitments to the Bai Bang project in Vietnam.

"It is inconceivable," she says, "that this project can be allowed to continue despite the fate of the boat people, the continued occupation of Cambodia, and forced labour at Bai Bang."

However, Sweden's Foreign Affairs Minister, Mr Sten Andersson, responded in a recent Parliamentary debate that human rights deficiencies "cannot in general be cited as an impediment to co-operation with developing countries."

Nonetheless, he warned, "human rights have come to play an increasingly important role in the selection of countries, in the design of aid and in decisions to discontinue development assistance."

Trade

Erosion of competitiveness

SWEDEN'S TRADE surplus declined to SKr 15.8bn last year from SKr 24.3bn in 1984 and the country lost market shares abroad despite a 3 per cent rise in the volume and a 7 per cent increase in the value of exports.

The economy is highly dependent on trade, with about 50 per cent of its output of manufactured goods exported, Europe, both EEC and EFTA, is the largest customer, providing nearly 70 per cent of the country's export market.

Rising costs and higher-than-average inflation eroded its competitiveness during the 1970s, but that was offset during the 1980s by devaluation of the krona in 1980 and 1982. More recently, the movements in exchange rates, such as the falling dollar and the strengthening Deutschemark, have been beneficial. So has the lower oil price, with certain exceptions.

The purchasing power of three important customers, Norway, which accounts for 10.5 per cent of total exports, the UK, with 10 per cent, and the Soviet Union, which though it has only 1 per cent of the total is the largest Eastern bloc customer—is expected to be adversely affected by the decline in revenue they are sustaining as a result of the fall in oil prices.

But this loss is likely to be more than offset by the positive effect of oil price changes on Sweden's other main trading partners in the EEC as well as the reduction in the energy import bill, which was 20 per cent of the total last year.

Last year imports climbed at a much faster rate than exports, up by 12 per cent in value and 9 per cent in volume, according to the Central Bureau of Statistics. Imports totalled SKr 243.6bn in 1985.

The trade surplus would have been even lower had not export prices increased faster than import prices during the year.

The export boom of 1983 and 1984, which had been stimulated by the 16 per cent devaluation of 1982, was clearly flagging when the 3 per cent volume increase is compared to the 8 per cent increase in 1984 and the 13 per cent rise in 1983. Total foreign sales last year were SKr 259.4bn.

A substantial increase in imports was a strong factor in dragging the current account of the balance of payments into an estimated deficit of SKr 10.3bn last year compared



Half of Sweden's output of manufactured goods is exported. The port of Gothenburg.

with a short-lived surplus of SKr 3.2bn in 1984—the first time in a decade that Sweden had shown a current account surplus.

The growth in the value of exports to the US, which last year went ahead of West Germany as the largest single country market with an 11.6 per cent share, slowed down last year. Sales rose by a dramatic 49 per cent in 1983-84 and a more modest 9 per cent in 1984-85.

By the last quarter of 1985, however, the falling dollar meant that the value of Swedish exports there actually fell by 6 per cent.

As an economic area the EEC is by far the most important export market for Swedish goods, accounting for about 50 per cent. The volume of exports to the EEC had been rising in recent years, though there was little improvement last year.

EFTA, of which Sweden is an important member with a larger population than Austria or Switzerland, continues to be a significant market, though it is declining gradually as exporters concentrate their marketing efforts in the main EEC member states. Nonetheless, it still

accounts for some 17 per cent of Swedish exports.

Exports have also been growing strongly to more distant and previously neglected markets such as Canada, up 33 per cent last year; Australia, up 28 per cent; and China, up by a massive 83 per cent in 1985.

Trade co-operation with Sweden's Nordic neighbours continues to be significant. Last year Norway, Denmark, Finland and Iceland accounted for 23 per cent of the export market. Stockholm, in concert with the other Nordic capitals, has been active in identifying and eliminating technical and administrative obstacles to the growing trade co-operation between enterprises across their borders.

The government is forecasting a slight improvement in the trade surplus this year, to SKr 18.2bn, with a 4.5 per cent volume increase for exports and a rise of 4.9 per cent in the volume of imports.

Engineering products showed the strongest advance in exports last year, with increases also registered for pharmaceuticals, paper and steel.

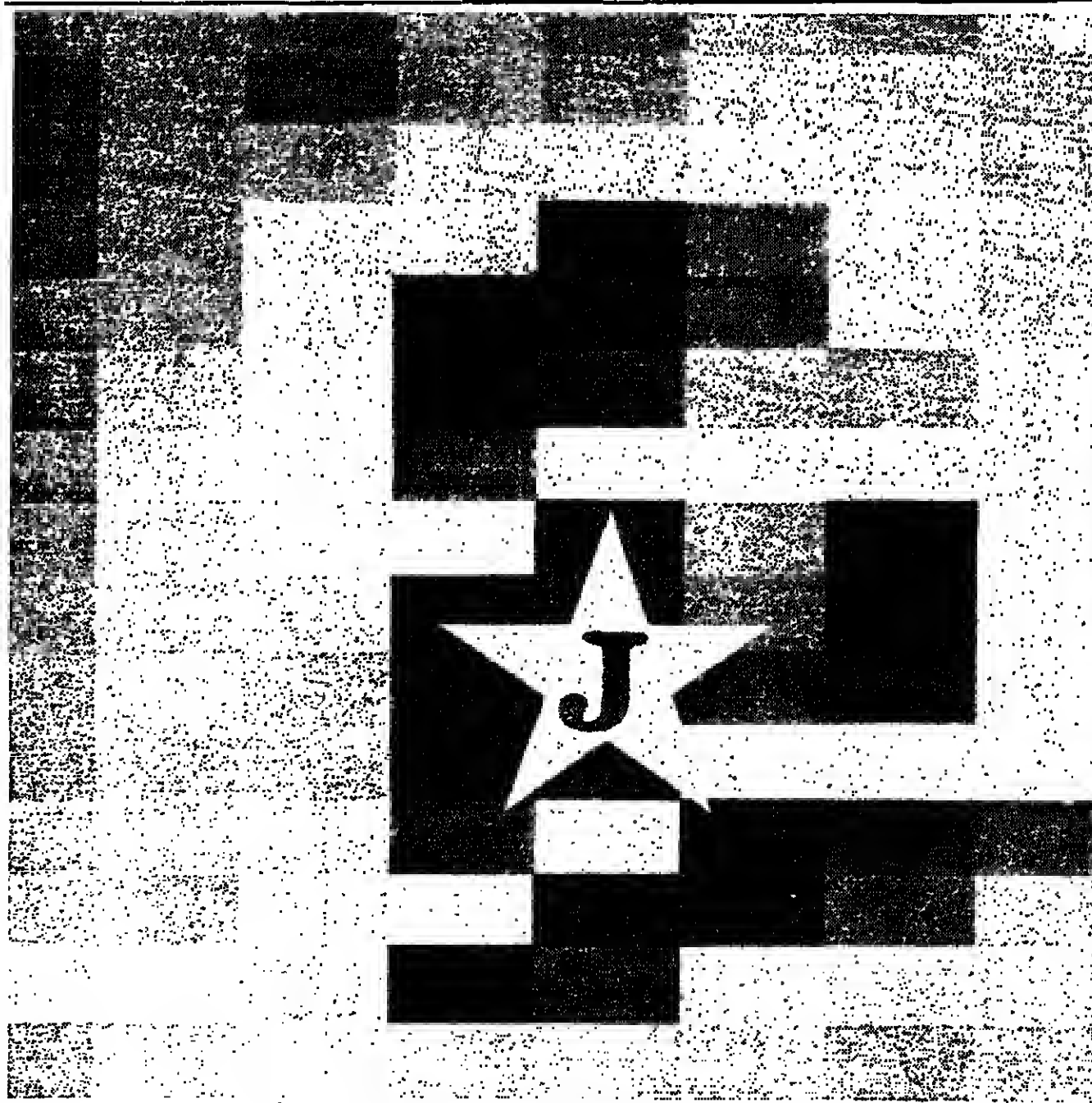
Among the imports, capital goods were up 15 per cent in value, about the same level as

in 1984. Machinery for specific industries, particularly paper-making plant, was up 26 per cent in value. Computers comprised 13 per cent of this specialist category and rose 18 per cent in value.

Energy, which accounts for about 19 per cent of total import value, rose 10 per cent. The bulk of this was crude oil, some 53 per cent of which comes from the UK. The Middle East now supplies only 2 per cent of crude imports, compared to 50 per cent in 1980.

Although accounting for only about 1 per cent of total exports, arms sales have always been a contentious issue in Sweden. Official policy is not to sell weapons to nations at war or likely to get into a conflict.

That is the principle. In practice this appears to be open to interpretation and thus to controversy. The recent agreement to sell SKr 10bn worth of artillery to India is a classic of its kind — on the one hand a major export victory and on the other a dubious stretching of the moralist principles laid down for Sweden's merchants of death.



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Mr Ingvar Carlsson, the Prime Minister, presides at a Press conference last month to announce a judicial inquiry into the full circumstances and repercussions of Olof Palme's death. The assassination has had far-reaching effects on a Sweden which has changed considerably in the past decade

Immigration

Huge change in Swedish society

WHEN Mr Ingvar Carlsson met the Press for the first time as acting Prime Minister in the grim first hours following the assassination of Mr Olof Palme, an odd-looking hit of plastic stood out on the lapel of his black suit.

It was the brightly coloured shape of an upheld hand, the French-inspired SOS anti-racist logo — printed with the edification: "Hands off my friend!"

The same symbol was printed on T-shirts pointedly worn by the entire choir which sang the country's farewell at Mr Palme's funeral.

But another more disturbing sign could be seen on the streets — the letters DSS traced on to grimy windows, sprayed on to walls and carved into trees. Translated, it means "Keep Sweden Swedish."

The Government's conscious decision to introduce the anti-racist theme into the sombre proceedings following Mr Palme's death represented an attempt to counter the then widespread suspicion that the assassin might have come from the ranks of Sweden's own immigrant community.

The fear was that this could fan the embers of latent hostility and resentment, which exists to a growing extent in

some quarters of the country, into open flame.

The complexion of Swedish society has changed radically in the post-war years as a result of the nation's liberal policy on refugees. What was once perhaps the most homogenous culture in Europe has found itself dealing, for the first time in its history, with the consequences of large-scale immigration.

In 1950 Sweden had only 89,000 foreign-born residents, corresponding to 1 per cent of the entire population. The overwhelming majority of these came from other parts of Scandinavia.

Of today's 8m population, 645,000 people, or 8 per cent, are immigrants. Now, more than half came originally from outside the Nordic region.

Since the Second World War, the country has accepted successive waves of refugees from Eastern Europe, Latin America, the Middle East and Indochina.

"This multi-cultural society represents a revolutionary change," Mr Palme declared.

It was perhaps too much to expect that the country could adapt to this revolution quickly and easily. With a weakening economy, declining resources, and a growing number of refugees seeking and being granted asylum, there have

been disturbing signs of harsher attitudes.

Local communities have become increasingly unwilling to accept responsibility for the resettlement of refugees, with which they have little experience since the majority of immigrants have been concentrated in the larger cities so far. Complaints of discrimination at workplaces, in restaurants and in seeking housing are growing.

As a further indication of hardening attitudes, others point to the election for the regional council of the small ultra-rightist Skane Party. Its platform includes a strong anti-immigrant plank, which prompted Mr Pierre Schori, the State Secretary, to openly accuse it recently of "racist policies."

"There are tendencies towards xenophobia," the immigration minister, Ms Anita Crafin, admitted frankly. With the recent sharp rise in the numbers seeking asylum, "many people feel that we are being flooded."

Nor are the authorities blameless. Amid growing numbers of asylum seekers, tougher official handling of refugee cases has drawn sharp criticism, not least from the United Nations High Commis-

sioner for Refugees.

The total of 14,500 who sought asylum in Sweden in 1985 was the largest number in the post-war period, putting a severe strain on the country's liberal tradition.

The government has been compelled to respond. In mid-March, it tabled a new immigration policy bill. It proposes, among other things, a law against racial discrimination and sharp penalties including jail terms for offenders.

The Bill also establishes an immigrant rights ombudsman, doubles state aid to immigrant groups, and attempts in general to address some of the problems caused by large-scale immigration.

While attitudes have hardened considerably, what is perhaps most surprising, given the circumstances, is that the negative reaction has not been stronger, as for example in neighbouring Denmark.

However, immigration authorities expect as many as 13,000 new refugees to apply for asylum this year, and government may soon find itself facing an irresistible pressure to abandon its historically liberal policy, follow the path of Denmark and sharply tighten the influx.

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Engineering

Slower growth and long wait for an upturn

SLOWER GROWTH in productivity this year, wage settlements almost double those of rival producers, and a weakening world business cycle are the less-than-cheering facts facing Sweden's vital engineering industry.

Described as the heart of Swedish industry, the engineering sector (excluding shipping) did well in 1983 and 1984. Last year productivity rose by a respectable 8 per cent, to total SKr 230bn. Good though this was, it was disappointing for an industry which enjoyed a 10 per cent increase the previous year.

Growth this year will be no more than 4 per cent for the industry as a whole, says Mr Anders Rune, chief economist of the Engineering Employers' Association. He believes that 1987 could be "zero year" with no change in investment or production, and possibly a decline in employment.

"The bottom will come in 1988, but that will be at a much better point than earlier troughs," he forecasts.

With the phase of increased industrial investment in the US now over, he says, demand for Swedish products there will lessen. Elsewhere, the lower oil price, which he regards as welcome but temporary, will lead to a rise in private consumption.

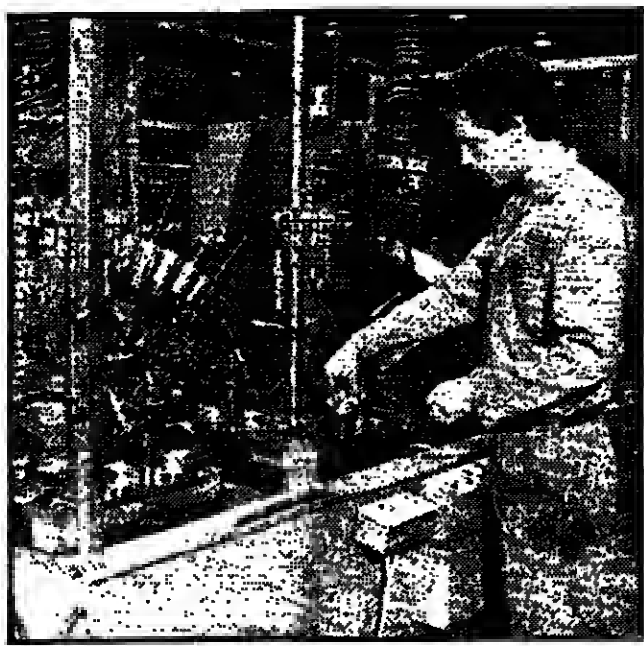
"But this will be less significant for our industry because we mainly produce investment

goods," says Mr Rune, who is looking to 1990 for the next upturn of the business cycle. But the picture is far from total gloom and doom. Compared to the overall industrial performance of the Swedish economy last year, when production grew by only just over 2 per cent, engineering did well. As it accounts for 40 per cent of industrial output and close to 50 per cent of industrial exports, continued growth, even at a slower rate, remains crucial to the nation's well-being.

While it is small by international standards, accounting for barely 3 per cent of world trade in engineering products, the key role the industry plays in Sweden can be seen from the fact that it accounts for five of the country's ten largest industrial companies. Another three of the top ten are conglomerates with major engineering subsidiaries.

It employs 380,000 people, roughly 10 per cent of the total labour force in workplaces ranging from the giant to the tiny. More than half of the 4,000 engineering factories have fewer than 20 employees.

Exports accounted for 54 per cent of production last year, with the volume up by 6 per cent over 1984. The total value of foreign sales rose by 11.7 per cent, to total SKr 123bn. In 1984 the growth in the volume of exports was 2 per cent, while the increase in value was 19 per



Multi-drill machine at Atlas Copco. Engineering is a key part of Sweden's industrial activity.

cent. Western Europe is the largest market for all Sweden's exports. This holds true for engineering, which sold 36 per cent of its output there. The Nordic market accounted for another 20 per cent, with the US increasing its share from 12 per cent in 1982 to 19 per cent in 1985.

The Swedish Engineering Employers' Association (SEEA) officials warn members that West Germany is Sweden's largest competitor, especially in vehicles, and that its productivity is expected to rise more than Sweden's while its wages increase by only half the Swedish rate.

Swedish engineering's long-standing international success is based on some key inventions and innovative management.

SKF became the world's largest manufacturer of roller bearings thanks to the invention of the self-aligning ball bearing. Alfa-Laval made its name with the cream separator, L.M. Ericsson with the hand telephone set and later digital telecommunication systems, and Electrolux with the absorption refrigerator (no moving parts).

Management capable of adapting to change and the invention of new production techniques have helped Volvo, the car, bus and lorry maker, to achieve fame and prosperity, while ASEA has become Europe's largest manufacturer of coils and a powerful competitor in the world market for power generation and transmission equipment, industrial process control and electronics.

Not all the traditional industries have fared well, however. Sweden once had a 10 per cent share of the world shipbuilding market and was the world's third largest in terms of tonnage built. The Government's decision in February to close Kockums, the last of the big state-owned yards, means that the merchant shipbuilding industry is now dead.

This marks the end of a nine-year struggle by the Government to keep the industry afloat and turn a profit through a restructuring programme. The rapid reduction of capacity cost the state SKr 35bn in the eventually unavailing attempt to make a slimmed-down industry more competitive.

But even as the shipbuilders have been moving out of the picture, the car makers have been moving in. Saab-Scania announced that it would build a car plant in Malmo to take up the labour slack caused there by the Kockums closure. A year ago Volvo agreed to set up a plant at Gothenburg when the Government announced the closure of the Uddevalla shipbuilding yard there.

The vehicle engineering industry has been the success story of recent years—especially the soundly built Volvo cars which have done so well in the US and the UK. Volvo trucks and those of Saab-Scania have also sold well.

Transport is the second highest employer in the engineering industry, with 97,000 workers. The weaker dollar is expected to shave Volvo's previously handsome margins in the important US market for the immediate future, however.

The electrical sector, which had been doing well until the beginning of 1985, has suffered from a steep decline in demand, but it is still regarded as a growth area.

But the same is not being said by SEEA officials about the machinery and metal-working sectors. Demand has weakened and the short-term forecasts are far from optimistic, especially given the labour unrest which is besetting industry in general and metals in particular.

David Lennon

Industry

Export orders up 10 per cent

"SWEDISH UNIONS have a very open attitude to rationalisation and structural changes," says Mr Stig Malm, leader of L.O, the country's powerful blue collar workers' union confederation. "Even at 30 per cent unemployment in the 1930s we took the position that we should be in favour of new technologies."

Sweden is among the countries that have come furthest along the path of rationalising and restructuring old industries. It tried the expensive route of trying to keep ailing industries alive with heavy state subsidies during the 1970s, but with the return of the Social Democrats to power in 1982 it has embarked on a more offensive policy.

The dramatic 16 per cent devaluation pushed through in October 1982 restored market profitability and since then industrial policy has shifted away significantly from subsidisation towards a more general approach to creating favourable conditions for long-term growth.

Over the last three years Swedish industry has staged a strong recovery in terms of production, profitability and investment. This year could prove to be another year of record profits, as the economy performs more strongly than originally expected and Sweden gains a fresh impetus from exports to European markets.

While the fall in the value of the US dollar has hit some Swedish companies—the US after all took over West Germany last year as Sweden's largest export market—exporters have been well compensated by the corresponding fall in the value of the Swedish krona against the D-mark and other European currencies.

Given the way the Swedish currency basket works, the weakening of a major component such as the US dollar automatically leads to the strengthening of other currencies.

In March industrial production rose by 2.7 per cent from February and was 2.8 per cent higher than a year earlier. Output virtually reached the record level of 1984 in August last year. Production in the first quarter was 2.1 per cent higher than in the preceding quarter with the main growth coming from the engineering, paper and board, and chemicals sectors.

Activity in the engineering



Manufacture of carton-filling machines at Tetra Pak, Lund

sector—excluding shipbuilding—is at a very high level, and since it reached the bottom of the recession in the fourth quarter of 1982 production has risen by 30 per cent. Output in the first quarter of 1986 was 4 per cent higher than in the previous three months and was the highest level ever recorded.

In the paper and board sector output in March rose by 2 per cent from February and was fully 6 per cent higher than a year earlier. The strong growth continued last year, but in the first quarter of 1986 production rose by 4 per cent from the last three months of 1985 and established a new record level for output in a single quarter.

New orders to industry also showed a further improvement in the first quarter and were some 4 per cent higher than a year earlier. Export orders showed a jump of fully 10 per cent, while orders from the home market were down by 2 per cent. Industry's production plans for the second half of 1986 have been expanded, and most expect the positive trend to continue through the second half of the year.

Industrial investments jumped by 18 per cent last year to reach the highest level since 1978, but they were some way below the peak year of 1975. Opinions are still divided on what level investments will reach in 1986, but according to studies made by the Central Statistical Office investments should at least match the 1985 level.

Excluding the pulp and paper industry, which had very high investment expenditure in 1985 the rest of industry could increase the volume of spending by some 5 per cent.

While the performance of Swedish industry during the second half of the 1970s and the beginning of the 1980s was rather poor—production in 1982 was lower than eight years earlier—other shipbuilding nations have reduced so much capacity so quickly, but even Kockums, which has ranked among the most efficient shipyards in the world, has found it impossible to remain profitable. The whole restructuring exercise in Sweden offers some sobering lessons to decision makers in other European governments, in motor and shipyards, where subsidies are still the order of the day.

Kevin Done

IGGESUND

Iggesunds Bruk is a forest industry enterprise with some 3,000 employees. Total sales in 1985 amounted to SKr. 2.8 billion and the profit after financial income and costs amounted to SKr 125 million.

Almost 80% of the company's output of pulp, paperboard and sawn timber products are exported. The Group is organised in three divisions: Forestry, Timber Products and Pulp/Paperboard.

In 1985, the earnings of the Timber Products and Pulp/Paperboard Divisions declined sharply, while the profits of the Forestry Division improved.

The Group's fixed capital expenditure totalled SKr. 394 million.

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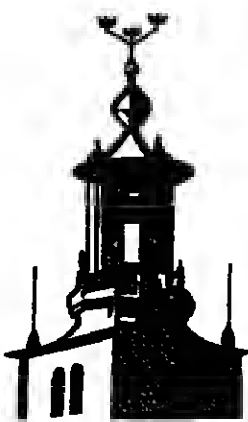
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An appetite for acquisitions

Electrolux's latest big take-over has made it the world's biggest maker of household appliances, Kevin Done reports.

ELECTROLUX'S voracious appetite for acquisitions has apparently never satisfied. In the space of a couple of decades it has bought more than 100 companies in 40 countries, but even these standards it has surpassed itself in the last 18 months.

At the end of 1984 it bought Zanussi, the Italian white goods manufacturer, establishing itself in the process as the unchallenged leader in the European household appliances market.

The job of rescuing the battered Zanussi group from the brink of bankruptcy and shaking it back into profit appeared to challenge even Electrolux's undoubted restructuring skills, but with barely a pause for breath it returned to the takeover trail this spring with its most ambitious acquisition to date, the \$745m purchase of White Consolidated Industries, the third largest white goods manufacturer in the US.

The acquisition of White Consolidated has made Electrolux the biggest manufacturer of household appliances in the world.

At the end of last year the group had a turnover of SKr 38.7bn and a workforce of some 93,000. During the second half of 1985 it is planning to consolidate Zanussi, increasing its stake from the original 49 per cent to more than 90 per cent. As a result of this move together with the takeover of White Consolidated, Electrolux group sales will catapult to about SKr 60bn while the group workforce will grow to 125,000.

It could take some time before the growth in profits begins to keep pace. "We cannot promise any immediate, marked improvement in earnings," says Mr Anders Scharp, group chief executive. "The costs always come before the income is generated." Electrolux has already managed to bring the beleaguered Zanussi back into profit, however.

A tough series of cost-cutting measures and a far-reaching restructuring programme mean that Zanussi began to operate profitably on a monthly basis from last September, bringing to an end years of heavy losses. The 1984 loss of SKr 723m (after interest and tax) was cut to a deficit of SKr 148m in 1985. In the first quarter of 1986 Zanussi showed a first modest profit of SKr 32m (after

financial items) compared with the loss of SKr 81m in the same period of 1985.

Electrolux's recipe for Zanussi has included bringing in a new management as well as a cut in the workforce by some 3,000 during the year. At the same time it has increased product exchanges between Zanussi and the rest of the Electrolux group, it has co-ordinated the administration and distribution of the sales force and established investments to make the Zanussi plants more highly-automated and flexible in order to ensure low production costs.

In the US, Electrolux also faces a major challenge if it is to bring White up to the levels of profitability achieved by its leading rivals General Electric and Whirlpool. The management of the Swedish giant believed that it was imperative for it to enhance its presence in the US market, however, and White offered perhaps the best opportunity available.

Mr Scharp says: "There are three prime markets for consumer durables in the world—Western Europe, the US and Japan. To ensure long-run survival it is necessary for a company to be established in more than one of these regions."

"It is essential to be large enough to make possible the necessary investments in research and development, in high-automated production systems, which also allow for a great degree of flexibility, and in internationally-recognised brand names."

In the US Electrolux had hitherto pursued a niche strategy with Tappan, its US subsidiary, concentrating on cooking ranges, microwave ovens and kitchen cabinets. Changes in the strategy of its major competitors had begun to make this approach untenable in the long run, however, as both General Electric and Whirlpool moved to broaden their market base.

The big US groups had started to invest heavily in new products and new production equipment in order to expand into other sectors of the household appliance market.

Electrolux found increasing difficulties in its attempts to offer a complete programme from its more limited US base, while at the same time General Electric and Whirlpool had become more active in its own product sectors.

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world." The response was impressive even by Electrolux's previous standards. The \$745m acquisition of White is the biggest foreign takeover ever made by a Swedish company.

White is the third largest household appliances manufacturer in the US, with annual sales of just under \$2bn but it has only mediocre profitability with pre-tax earnings last year of just \$31m.

It was already in the process of being restructured before Electrolux appeared on the scene, however, and its operations have been concentrated increasingly towards household appliances. A couple of years ago it dropped about 10 different loss-making lines of business taking a \$125m write-down in the process, but it is still active outside white goods, that pose the biggest problem. Its machine tool business made a \$30m loss last year.

According to Anders Scharp, in household appliances White Consolidated and Electrolux's existing US subsidiary Tappan complement each other well, however. As a result of the takeover the new group will emerge as US market leader in ranges and air-conditioners and will have a strong position in refrigerators and freezers. Its main weakness will be in dishwashers and washing machines.

Through the takeover Electrolux has gained four well-established brand names, Kelvinator, Frigidaire, White Westinghouse and Gibson.

The programme to integrate White into the Electrolux group is already started, Mr Scharp says. "A number of task forces have already drawn up programmes for action in product development, production, distribution and administration. The positioning of the brand names and marketing co-ordination can be improved and we will immediately attempt to restructure production in our own production facilities."

Electrolux has financed many of its previous acquisitions through loans and is used to operating with high leverage, but the sheer size of the White Consolidated acquisition—and in Electrolux terms the heavy price tag—has forced it to approach the equity market this time for a new injection of funds.

Its international equity placement is the most ambitious ever attempted by a Scandinavian company, with an issue of 8m "B" free shares aimed at raising about SKr 2bn (\$300m).

The issue, one of the largest Euro-equity issues ever made, is being carried out on a global basis. It is directed to international investors outside Sweden and is being arranged on a regional basis with a lead manager in each of the nine different capital markets to be approached: in the US, the UK, West Germany, France, Switzerland, Italy, the Far East, the Netherlands and Canada.

Kevin Done

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Sweden 7

Forest Products

Demand picks up in principal markets



Below: nursery for young trees and (above) planting trees in the forest. Restructuring of the various companies is intended to help them compete better in the world market.



SWEDEN'S PULP and paper manufacturers had expected a recession in 1986, but instead demand has been good in the principal markets in Europe thanks to the fall in oil prices, the decline of the US dollar, and the lowering of inflation and interest rates, according to Mr. Bo Wergens, director general of the Swedish pulp and paper association.

A reasonably satisfactory performance this year will be welcome after the more difficult business conditions of 1985 when pulp prices fell, timber was in the middle of a recession and paper products fought a hard and sometimes losing battle to maintain or increase prices. Exports remained at about the 1984 level of SKr 47bn.

The timber, pulp and paper industry has always been very important, currency earner for Sweden, accounting for about 20 per cent of total exports, second only to the engineering industry. Sweden is the world's third largest exporter of pulp and paper after Canada and the US.

One of the oldest industries in the country, the forest sector has undergone a major structural reorganisation during the past 25 years with the closure of mills and phasing out of obsolete machines.

Currently the restructuring process is being marked by acquisitions, mergers and larger units are put together so that they can better compete on the world market.

In January Svenska Cellulosa (SCA), one of the leading forest products groups, completed its take over of Edst, a maker of tissue and hygiene products, in a deal worth SKr 1.85bn. Two months earlier it paid SKr 415m for majority control of Syano, a forestry and hydro-power company in northern Sweden. At the same time it increased its holding in Obbola Linerboard to 75 per cent.

At the end of last year Holmen Bruk, Europe's biggest newsprint producer, took over

Fiskeby, a smaller forest products company, for about SKr 300m, enabling it to diversify into other product areas including hygiene tissue, sack paper, printing and wrapping paper.

Stora, Europe's largest forest products group and one of the world's oldest corporations which celebrates its 700th anniversary in 1988, has been busy since 1984 integrating the two different "corporate cultures" after it took over Billerud, one of its main domestic rivals.

A quarter of a century ago there were 127 pulp mills with a combined production capacity of 5.6m tonnes. The number of plants has been reduced to 56, while capacity has soared to over 10m tonnes.

The same rationalisation process has been going on in the paper industry. The number of mills declined from 76 to 56 during the past 25 years, but production capacity has tripled to 7.7m tonnes. The structural changes continued in 1985, though the pace of increase in paper production slowed down. Swedish capacity for paper and board increased by 2.5 per cent during the year, compared to the high 8 per cent increase in 1984 when demand was extremely high.

Paper and board account for more than 60 per cent of the turnover of the pulp and paper industry, and 75 per cent of production is exported. This

growth was largely a matter of small increments in coated printing paper, kraft liner and packaging board. Three new paper machines were commissioned: two for the production of newsprint and one for uncoated wood-free printing paper. Capital investment in 1985 was about SKr 6bn.

The most significant improvements in production were recorded by the manufacturers of newsprint, wood-free printing paper and certain grades of board. There was a slight decrease in the production of kraft paper.

The concern about world capacity in certain sectors and the pursuit of profitability means that no new paper machines are due to be put into service this year, but modernisation and rationalisation of production will continue, Mr Wergens says.

More than three quarters of the total deliveries of paper and board, some 5.3m tonnes, were exported last year, a 1.5 per cent increase over 1984. Over 70 per cent of these sales were to the EEC with Britain and West Germany remaining the most important customers, accounting for 20 per cent and 19 per cent respectively. Total exports earned SKr 23bn last year.

There was a decrease in deliveries to the US which still remains an important market mainly for newsprint and printing papers. An increase in ex-

ports to other markets such as Australia, Japan and China.

Exports of newsprint, the principal grade in terms of quantity, rose by 8 per cent, or just over 100,000 tonnes. Overseas sales of board grew by 5 per cent while exports of kraft paper declined slightly.

The production of chemical market pulp fell by 10 per cent last year, while continued good demand for mechanical market pulp remained high, enabling manufacturers to produce at nearly the same level as in 1984. Pulp accounts for a third of the turnover of the paper and pulp industry, with 90 per cent of production exported.

In addition to world overcapacity and the low cost of competing short-fibre pulp grades Swedish industry lost its cost advantage over its North American competitors due to the 20 to 25 per cent decline of the US dollar in relation to the krona.

Total exports of chemical pulp fell by 7 per cent. There was a drop of 5 per cent in sales to the main market in Western Europe, where Sweden still retains its position as the leading supplier.

The good news came from the mechanical market pulp sector where product development and strong marketing resulted in a breakthrough. Deliveries totalled 473,000 tonnes, an increase of 7 per cent.

More than half the shipments were to Western Europe. Earnings from all pulp sales totalled SKr 10bn in 1985.

The world-wide profitability problems due to over-production of chemical pulp is expected to result in lower output this year. This is clearly reflected in the published plans of Swedish producers, Mr Wergens reports.

The sawmill sector underwent the same rationalisation process as pulp and paper. The number of mills dropped from 6,500 in 1980 to 2,500 today. But capacity was increased fourfold to 1,600m cubic metres. The giant Stora Ervika is planning a far-reaching restructuring of its

sawn timber operations, planning to close three of its seven mills this year while increasing productivity at the remaining mills by 20 per cent.

Export earnings from sawn wood totalled SKr 9bn last year. The pulp and paper industry requires about 65m to 66m cubic metres a year, but the felling in recent years has only been about 60m cubic metres. This shortfall is made up by imports, and is blamed on high taxation which discourages private owners — who own half of the country's forests — from cutting more. New tax concessions proposed by the Government are expected to have an impact next year.

Eleven per cent of the fibre consumption of the paper industry last year was waste paper. Demand for waste remained keen with total consumption reaching a record level of 756,000 tonnes, 3 per cent up on 1984.

Intensified collection of waste paper from private households, an activity engaged in by virtually all Swedish communities, resulted in an increase of 25,000 tonnes. Newspaper collected from households represented almost 50 per cent of the newspapers recycled. Some 135,000 tonnes of the total collected was exported in 1985.

David Lennon

Pulp and paper industry 1970-1985

	1970	1980	1985
PULP			
Number of units	98	72	56
Total capacity (m tonnes)	5.9	18.5	9.9
Number of employees	16,500	13,400	10,000
PAPER AND BOARD			
Number of units	68	62	56
Total capacity (m tonnes)	4.7	7.3	7.6
Capacity per unit	70	116	135
Number of employees	28,100	33,400	31,000

Source: Swedish Pulp and Paper Association.

Fermenta: fall of a spectacular empire

The problems of Fermenta, the biotechnology group, have rocked Swedish business, says Kevin Done.

THE SPECTACULAR fall from grace of Fermenta, the Swedish biotechnology and antibiotics group, and Refsat El-Sayed, its Egyptian-born founder and majority shareholder, has seen few parallels in Swedish business.

Fermenta has come within a hair's breadth of being expelled from the Swedish stock market — a measure the authorities have resorted to only once before in recent history — and the threat of expulsion still hangs over it. "Fermenta has come as close to expulsion as a company can come," says Mr Bengt Ryden, head of the Stockholm Stock Exchange.

It has received the heaviest flogging the bourse authorities can impose and has had to take scathing criticism for the way it has given investors selective information and created a misleading picture of its activities. This is the same Fermenta, which as recently as last January was able to announce plans for a SKr 4bn co-operation deal with Volvo, which stunned financial markets by its audacity.

The fact that Volvo, flagship of the Swedish engineering industry, and its chairman Mr

Pehr Gyllenhammar, were willing to set their imprimatur on Fermenta and Mr El-Sayed, appeared to crown a four-year period in which Fermenta had shown one of the most remarkable growth rates in Europe.

Mr El-Sayed took over Fermenta at the end of 1981 when it was a struggling producer of basic penicillin. From a turnover in his first year of SKr 95m he transformed the company's fortunes to the point where it produced sales last year of SKr 1,639bn. In the same period profits (after financial items) soared from SKr 3m in 1982 to SKr 320m last year.

During the heady days of January, when the planned deal with Volvo helped take the Fermenta share price to new heights, the company was already talking of reaching a turnover of SKr 9bn once the transactions were completed.

In barely 18 months since the company was launched on the Swedish stock market in the summer of 1984 Fermenta's share price had soared by about 1,200 per cent. In the process turning Mr El-Sayed, still the majority shareholder, into one of the richest men in the country.

He caught the public imagination as few before him. Swedish television made him "man of the year" even before the deal with Volvo was announced. He had shown that even in Socialist Sweden a person could come from nowhere and turn over

the entrenched business establishment in the process a new company that could challenge the international giants.

Under the Volvo deal Fermenta had been given the lead role in an ambitious restructuring of the Swedish biotechnology and pharmaceuticals sector and Volvo would have taken a substantial minority equity stake. Fermenta would have taken over the medium-sized Leo and Ferrossau pharmaceutical companies and acquired the voting majority in Pharmacia, Sweden's second largest pharmaceutical concern.

For some time the sceptics — many of them foreign investors — had wondered just how Fermenta and Refsat El-Sayed had managed to make such spectacular progress. They expected the company to plunge off the road, yet time and again, the 40-year-old entrepreneur continued to surprise his critics with an apparently endless string of acquisitions which allowed Fermenta to grow in quantum leaps.

When the fall did come it was triggered off from a seemingly unexpected quarter. Mr Bjorn Gillberg, a rather eccentric environmentalist campaigner, who had been pursuing Fermenta for its failure to comply with anti-pollution regulations at its Swedish plant, published an allegation that Mr El-Sayed's claims to advanced academic qualifications in microbiology — including a doctorate from the University of California — were

false. Mr El-Sayed tried to ride out the storm and maintained that he could prove that the doctorate was authentic. Members of his board rallied to his support.

The charges, hardly belied, proved to be misplaced and the facade quickly cracked as university authorities in the US and Sweden confirmed that they had no record of Mr El-Sayed's qualifications.

He issued a statement of apology in which he claimed that "meaningless stupidities" from his youth had caught up with him. His claims to a doctorate were "white lies from the years when I had to chase my daily bread as a consultant."

Fermenta's share price plunged in swift reaction to the dramatic disclosures and to make matters worse Volvo now began to distance itself from the affair. Only five weeks before, Mr Gyllenhammar had claimed that the deal with Volvo would "legitimise" Fermenta in a new way and that Volvo would "take responsibility if anything goes wrong."

The deal had still not been completed, however, and Volvo began to describe it as an agreement in principle rather than a "binding agreement" claimed by Fermenta.

As the share price continued to fall Fermenta tried to stem the sudden sense of crisis with the announcement that Mr El-Sayed was to step down as chief executive and would

instead become deputy chairman. Mr Ove Sundberg, already a member of the Fermenta board and previously managing director, KemaNobel, replaced him as chief executive.

The changes, hardly belied, proved to be misplaced and the facade quickly cracked as university authorities in the US and Sweden confirmed that they had no record of Mr El-Sayed's qualifications.

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As the share price continued to fall Fermenta tried to stem the sudden sense of crisis with the announcement that Mr El-Sayed was to step down as chief executive and would

information about the company's earnings prospects in clear contravention of bourse regulations. The authorities said that Fermenta's preliminary results for 1985 had been incomplete and unreliable. The company had "inexcusably" failed to inform the Stock Exchange about a planned \$30m directed share issue for its US subsidiary.

Incomplete information about a number of planned acquisitions and co-operation deals had given a "misleading picture" of the company's operations, the Stock Exchange authorities added.

What remains after all the turmoil is the fact that Mr El-Sayed had operated with a clear understanding of some of the possibilities of the international biotechnology sector and created a biotech and chemicals group which this year could have a turnover of around SKr 3bn and profits (after financial items and before minority interests) of some SKr 700m. That compares with sales of SKr 95m and profits of just SKr 8m only five years ago.

The authorities' patience has finally snapped. Fermenta must find a substantial new shareholder or again run the risk in a few months time of being expelled from the Stock Exchange, which would further jeopardise hopes of further expansion.

Kevin Done

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Financial Markets

Banks thrive as stocks soar



Sergels Torg in the business centre of Stockholm

SWEDISH banks have rarely had it so good. Profits, helped by falling interest rates and surging commission earnings from a booming stock market, soared in the first four months of this year and most institutions seem confident that the good news will continue.

At the same time the banks are working in a rapidly changing environment with new competitive challenges and opportunities as the authorities force the pace of liberalisation and deregulation.

In its quarterly review, Svenska Enskilda Banken, the largest commercial bank, declares warmly that "it would be no exaggeration to say that 1986 will be a remarkable year for the Swedish credit market. Conditions have changed drastically."

Bankers had grown accustomed to describing their industry as the most heavily regulated sector of the Swedish economy, but a series of sweeping reforms have radically altered that picture.

Changes in monetary policy mean that the banks' ability to compete with finance companies, for instance, has been transformed. At the same time the authorities' related decision to allow foreign banks to operate in Sweden means that the number of commercial banks will double this year with the arrival of 12 new commercial banks. They are led by five from France, followed by three from Finland (one in a joint venture with a French bank), two each from Norway and US, and one from the Netherlands.

In the two most significant steps taken during the past 12 months the banks have been freed of regulations affecting both the volume of lending and on the interest rates they can charge.

At the same time the Riksbank (the central bank), has moved decisively to the

use of open market operations for the conduct of monetary policy, having encouraged the rapid growth of a well-functioning money market during the first half of the 1980s.

The one area where the authorities were expected to retain their traditional attachment to regulations was foreign exchange controls, where a penoply of restrictions have been in force since 1945. A Government commission of inquiry established in 1977 finally produced a voluminous report late last year, with a narrow majority in favour of what amounted to the status quo.

To the surprise of the financial markets, however, the Riksbank came out with a set of recommendations in April calling for gradual reforms of foreign exchange controls too. The Social Democratic Government has come in for heavy criticism from its allies in the trade union movement for its plans to relax the controls, but the Finance Ministry clearly believes that it could hardly find a more favourable time than the present for starting a gradual deregulation.

The Finance Ministry said of the revised Budget presented to Parliament at the end of April: "In recent years the current account of the balance of payments has improved strongly and the Budget deficit has been substantially reduced. The competitiveness of Swedish industry has been good for the last few years and the inflation rate is falling significantly."

"The conditions have been created for a considerable liberalisation of foreign exchange controls."

The Riksbank says that the first priority should be to abolish the present requirement that forces Swedish companies to finance direct investments abroad through foreign currency loans over at least five

years. Later, the restrictions on Swedish residents purchasing foreign shares and foreign real estate should also be removed.

Presenting the Budget, Minister said that the step to allow Swedes to buy shares abroad should be taken before the end of the year.

The authorities are unwilling to consider the wholesale abolition of foreign exchange regulations advocated by the non-socialist opposition parties, however. Under the step-by-step approach proposed by the Riksbank and the Government there is as yet no room for any lifting of the ban on inward and outward investments in bonds and short-term securities.

The existing ban covers cross-border bank deposits and trading of bonds and short-term securities by Swedes in foreign countries and purchases of Swedish krona-denominated securities by foreigners.

The Riksbank maintains that it is above all such short-term placements in bonds, money market securities and bank deposits that "traditionally serve as channels for strong and destabilising capital flows," which it sees as a threat to its remaining autonomy in monetary policy-making.

It estimates that a complete lifting of the controls on companies' direct investments abroad would lead to an outflow of up to SKr 6bn a year. Strong capital inflows during the past 12 months have given the Riksbank some room for manoeuvre, however, and in the first five months of 1986 alone Sweden enjoyed an inflow of capital totalling some SKr 15bn.

The inflow has been made possible by the relative strength of the Swedish krona and by interest rates which are still high by international standards. Despite all this, the money trade union movement, however, any steps to liberalise exchange controls, which result

in it being easier for companies to move money abroad, are unacceptable.

According to Mr Stig Malm, head of LO, the blue-collar workers' trades union confederation, it is the "extraordinarily bourgeois central bank" and its seeking after a complete liberalisation of the credit market that lies behind moves to relax foreign exchange controls.

"The problem of Swedish companies not investing enough at home is not to be solved by making it easier for them to invest abroad. This isn't just unreasonable, it is unacceptable."

Whatever the opposition to an easing of foreign exchange controls, it remains true that successive non-socialist and Socialist governments have orchestrated a revolution in the Swedish financial markets during the 1980s.

According to Mr Bengt Dennis, Governor of the Riksbank, the liberalisation process has not been driven forward "by any specific -ism." It has not been ideologically based. It has not been steered by the latest economic fashion.

"Its origins are to be found mainly in the changed circumstances of the Swedish economy with the emergence of large financial imbalances in the shape of persistent current account and budget deficits, growing stocks of debt and liquidity in the economy, and changed institutional relationships in the financial markets. There was no master plan. Policy changes were led by necessity and by the problems we faced."

Starting in 1980 with bank certificates of deposit and then gathering pace since 1982 with the introduction of market rate Treasury bills, the money market has developed to the point where it has an annual turnover of more than

SKr 1,500bn and also encompasses commercial papers with more than 80 companies with commercial paper programmes.

The Swedish bond market has not developed nearly as quickly. There is now a functioning secondary market, although it is dominated by inter-bank transactions and the number of participants is much smaller than on the money market. But according to Mr Dennis: "The Swedish bond market has a big development potential. With lower interest rates it will blossom and compete well with the money market."

The battery of liberalisation measures coupled with the economic recovery of the past three years has broadly improved the fortunes and earnings position of the Swedish banks, which have managed to break the 1960s trend of shrinking profitability and weakening balance sheets.

Most of the banks except Göteborgen had lower levels of profitability last year than in the previous record year of 1983, mainly because of the higher interest rates established by the Riksbank after the May 1985 currency crisis.

Interest rates have eased considerably in recent months, however. The Riksbank cut the discount rate three times in the first four months of the year, bringing it down finally to 8 per cent compared with 11.5 per cent in May last year. The interest rate on three-month Treasury bills, which soared to more than 16 per cent in May 1985, had fallen to less than 10 per cent by May this year.

The gap between Swedish and international interest rates has also been narrowing, with a current difference of only some three percentage points against Eurodollar rates, compared with a gap of eight percentage points a year ago.

Kevin Done

Stock Market

Scrutiny of practices

TURBULENCE is the keynote of current activities in and around the Stockholm stock exchange which has in the past five years from "a duck-pondish backyard," as Mr Bengt Tyden, president of the exchange, described it recently, to become the ninth largest market in the world.

The boom of the 1980s—when the exchange was the world's fastest-growing, trading volume quadrupled and brokerage houses reaped record profits—has brought the exchange not just a new standing in the world, but more recently a piercing scrutiny of its practices.

There has been much heated debate in recent months over the ethics of the market and the adequacy of existing self-regulatory mechanisms. The Government has set up a number of committees to examine such disputed practices as "directed" share placement, the issuance of shares with differential voting rights, and cross holdings among Swedish companies.

This examination of operations is focusing attention on the question of stricter self-regulation versus additional government legislation. The exchange opposes further state interference, proposing instead "that new restrictions be written into a new stock exchange registration or listing contract."

However, while he says no government decision has yet been made, Mr Bengt-Ake Nilsson, head of the Finance Ministry's handling division which is responsible for the stock market, says "recent events do indicate a need for more stringent legislation in some areas to ensure the principle of equal treatment for all shareholders."

Foremost among the committees is that set up by the premier at the end of December to examine to what extent companies are using share placements. In particular it is studying the directed share issue in the pharmaceutical company Leo made by its parent company Sonesson, an engineering and pharmaceutical company which bought Leo in 1983.

The controversial Leo-directed issue was tightly restricted and not made available on the same terms to all Sonesson shareholders. Sonesson board members were offered Leo shares at SKr 50.80 before a stock market introduction at SKr 75 a share. Following a public outcry last November, Mr Hans Eric Ovin, Sonesson chairman, resigned.

The "Leo commission," as it is known, will report its findings and recommendations at the beginning of July. While it may well follow the Swedish tradition of compromise and consensus, it might similarly urge the Government to extend existing legislation to prohibit "directed" issues.

Another Government committee is due to report soon on the question of ordinary shares (common stock) with differential voting rights. At present it is possible in principle to issue shares of different categories with a voting ratio of 1 to 10.

Yet a third government committee is studying the question

of who owns Swedish companies. One of the tasks of the committee is to examine and analyse cross-holdings in which companies hold large shares in each other. The practice has been described by one local commentator as "the machinations of power blocks."

Despite all this, the turbulence, the Stockholm stock market boomed again in the past nine months, following a 20 per cent fall in the previous five quarters from the peak reached in early 1984. The index increased 29 per cent since the beginning of 1986. Total trading volume in 1985 was SKr 63bn.

The announcement by the Government that it intends to double the turnover tax on share trading from 1 to 2 per cent has caused concern in some quarters that investors may react negatively. Mr Lef Vindervag, a director of Enskilda Fondkommission, the brokerage arm of S-E Banken, believes that the earlier boom was halted in 1984 because of the introduction at that time of the original 1 per cent turnover tax.

During recent years foreign investors increased their net investment in Sweden and now hold about 10 per cent of the total market value of the 170 companies listed on the exchange. Even more telling, foreign investors accounted for more than 80 per cent of the new equity raised over the past five years.

Net foreign investment in the first quarter of 1986 was SKr 2.5bn, compared with SKr 4.8bn for all of last year.

The peak year for foreign investment was 1983 when the total reached SKr 6.1bn. Mr Vindervag believes that foreign investment should continue to rise because "basically all the elements are there for the share prices to rise."

However, there are problems worrying the foreign investors, according to Mr Peter Leing, an analyst at N. M. Rothschild Asset Management in London, who has long experience in the Swedish market. A key issue is the regulation restricting their purchases of non-voting "restricted" B shares, which ensures that they will always remain minority shareholders, he believes.

Other issues which cause apprehension, he said, were fears of a devaluation, wage inflation, the turnover tax, and a worry that the lifting of currency controls could lead to a flight of capital.

Steps should also be taken, Mr Leing said, to counter the negative image created by the evidence of insider trading and to calm the disquiet caused by acquisitions by power blocks which led to control on companies moving to new management without the shareholders being given an opportunity to have any say in the matter.

It is just these issues which the government-appointed committees are now addressing. The outcome of these deliberations could have a profound effect on the performance of the Stockholm market for years to come.

David Lennon

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SECTION II - COMPANIES AND MARKETS FINANCIAL TIMES

Monday June 9 1986



Investors show continuing interest in floaters

NEW ISSUE managers focused their attention on equity-related and floating-rate note (FRN) issues last week, as these are still relatively popular with investors, writes Claire Pearson in London.

Household Finance's \$100m 10-year bond, which pays interest at 8.5 per cent over three-month London interbank offered rate (Libor), traded up to 99.92 bid, against a par issue price.

10 points. A new \$40m five-year deal for Hitachi has traded at 96 bid against a par issue price, despite Hitachi's prestigious name.

Fixed-rate dollar bond prices ticked up slightly on Friday as New York bonds rose on the announcement of a rise in the May unemployment rate to 13 per cent.

about the direction of interest rates. But the bond was priced to give a yield of only about 36 basis points over US Treasury bonds.

remained stable last week while other bonds drifted lower. Lead-manager Crédit Commercial de France explained its removal as being intended to show a spirit of responsibility in the face of difficult conditions.

Phillips Petroleum to reduce debt load

BY WILLIAM HALL IN NEW YORK

PHILLIPS PETROLEUM, the US oil company which is more vulnerable than most to the collapse in oil prices, plans to withdraw a substantial part of the excess funds in its pension plan and use them to reduce some of the heavy borrowings it incurred last year as part of its successful defence against a hostile takeover bid.

US companies had taken similar action in recent years. The surge in the US financial markets means that company pension plans are generally overfunded in relation to their obligations.

UK commercial paper market faces qualms over legal aspects

SETTING UP a new financial market, for example in sterling commercial paper, is easy in theory but, as events have already shown, a little bit harder in practice, writes Peter Montaguon in London.

Now it appears that the argument may not be quite so clear-cut after all. A number of companies and banks are looking at the possibility of issuing commercial paper directly in the UK, before they do so in the USA, where the market is well established.

precisely that type of company which tends to be most cautious about the risk to its corporate image should legal action ensue. That may limit the potential field, but the signs are that some companies are now gearing up to test the water.

Such a test seems to make all the more sense in that an alternative view argues that issues of commercial paper that have already taken place through an offshore vehicle may contravene the law in its strictest interpretation.

tentative growth in outstandings. It also means that the legal profession is likely to be one of the main beneficiaries of the meagre returns that most dealers are now expecting.

with its split 4-4 margins. Bankers believe the new loan is actually closer to current market levels for Czechoslovakia.

Thus several corporate treasurers have felt the need to hold back from using the new market because the amendments to the Companies Act lifting the requirement on UK issuers of securities to publish a prospectus will not be complete until the Financial Services Bill is enacted, at the earliest this autumn.

Some arguments hold that a direct issue, without a prospectus, is already perfectly legal, provided the offer of paper is made orally rather than in writing. Theoretically it is possible to structure a commercial paper issue in that way if careful attention is given in phrasing the information memorandum so as to distinguish it from an offer for sale.

It would take a test of those arguments in the courts to ascertain whether they hold water. As far as the market is concerned, the important point is that the legal aspects of selling commercial paper have turned out to be much more complex than originally met the eye.

the market is concerned, the important point is that the legal aspects of selling commercial paper have turned out to be much more complex than originally met the eye. For those who want to promote commercial paper, that is a pity. It is one factor holding back the still

Czechoslovakia has surprised its bankers by launching a renegotiation of two outstanding loans while its new \$100m National Westminster credit is still in the market.

The indicated terms still include a \$100m tranche bearing interest at the expensive US prime rate so long as it is less than 90 basis points over the certificate of deposit rate.

West Germany levies new rule on bank risk

BY JONATHAN CARR IN FRANKFURT

WEST GERMAN banking supervisors have agreed on a new rule to take account of the "off balance sheet" risks run by banks operating in the growing Eurozone facilities market.

At a hearing in Berlin in April, representatives of the main German banking groups had argued strongly that only 25 per cent should be counted. They also stressed they should not be burdened by new rules harsher than those faced by main foreign competitors.

Table with columns: Primary Market, Secondary Market, and Total. Rows include US\$ and Pounds for various categories like Straight, Conv, FRN, and Other.

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INTERNATIONAL CAPITAL MARKETS

US MONEY AND CREDIT

Employment data end Wall St nosedive

SAVED by the bell, the US credit markets pulled out of a continued nosedive on Friday after Mr Paul Volcker, the Federal Reserve board chairman, said the Fed was firming. The employment data showed the reason why.

As a result short- and long-term interest rates ended the week little changed—hiding the market's underlying nervousness and uncertainty.

The market now recognizes that it had gone to bearish extremes," says Mr Philip Braverman of Irving Securities. The 0.2 per cent rise in the underlying unemployment data, and slow growth in consumer insolvency credit, confirm continued US economic weakness.

US MONEY MARKET RATES (%)					
	Last Friday	1 week ago	4 wks ago	12-month High	Low
Fed Funds (weekly average)	7.02	6.91	6.78	6.91	6.78
Three-month Treasury bills	5.32	5.30	5.00	7.40	5.78
Six-month Treasury bills	0.37	0.40	0.00	7.46	5.79
Three-month prime CDs	8.83	8.22	5.48	0.10	8.42
30-day Commercial Paper	6.50	5.70	5.83	9.00	6.28
90-day Commercial Paper	0.75	0.55	0.00	5.00	1.81

US BOND PRICES AND YIELDS (%)					
	Last Friday	Change	Yield	1 week ago	12-month High
Seven-year Treasury	100	+ 1/8	7.90	8.04	7.60
20-year Treasury	110	+ 1/8	8.34	8.41	7.73
30-year Treasury	105	+ 1/8	7.87	7.77	7.26
New 10-year "A" financial	N/A	+ 1/8	8.00	8.00	8.75
New "AA" Long utility	N/A	+ 1/8	8.38	8.40	8.88
New "AA" Long industrial	N/A	+ 1/8	8.33	8.10	8.58

Money Supply: In the week ended May 26 1988 rose by \$1.7bn to \$680.5bn.

James Baker, the Treasury secretary, gave the market a temporary boost on Tuesday by indicating that rates could still move lower.

But Mr Volcker appeared to put a massive road block in the way the following day by expressing concern about inflation—despite the renewed slide in crude oil prices—and by suggesting that the Fed could not move to cut the current 6.5 per cent discount rate ahead of similar moves by West Germany and Japan.

Brothers, "on Thursday chairman Volcker put to rest any fears of Fed tightening."

Perhaps the biggest lesson from last week was that the Fed is indeed walking a very fine line. As Dr Kaufman noted, contrary to the Fed's open market operations, the Fed satisfied a substantial increase in reserve demand.

In retrospect it now seems that the authorities have been merely pursuing a continuation of prior accommodation, with a levelling of caution needed in the light of high M1 growth rates and a likely end to easy deflation," says Dr Kaufman.

But Mr Volcker's initial Boston comments and the Fed's open market actions certainly succeeded in discouraging any market expectations of an imminent Fed easing.

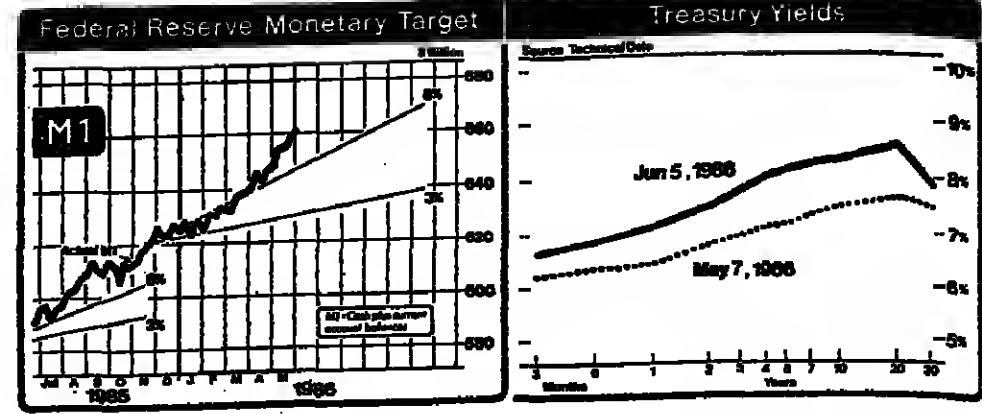
By Friday the picture had changed. Mr Volcker's Congressional clarification that there was no ironclad linkage between foreign and domestic interest rate moves helped.

Industrial production, personal incomes and retail sales figures. If these numbers released this week bear out market expectations, the current view is that the Fed will be led to accommodate with or without Japan and West Germany—fairly soon.

In any event the May employment data, which showed a civilian unemployment rate of 7.3 per cent, up from 7.1 per cent in April, and a slower than expected gain in non-farm payroll, spurred a bond market rally on Friday.

The treasury long bond price jumped over 2 points on Friday, more than wiping out its earlier losses.

At the close on Friday most government bond prices were up between 1/8 and 1/2 of a point after a week of extreme volatility.



The three- to seven-year portion of the Treasury yield curve has deepened dramatically since interest rates began their upward trek in mid-April.

In the money markets, rates rose sharply at the start of the week but fell back later. The Fed funds rate, after climbing from 6 1/2 and 7 per cent while most other short-term interest rates were unchanged to 10 points lower—thanks to Friday's

upbeat tone.

In the foreign exchange markets the dollar continued to tumble from its recent highs—halting a three-week rally.

Corporate bond prices were also hit hard by shifting market perceptions. After falling sharply in early trading last week, they managed to close with gains of between 1/8 and 1/2 points.

New issue yield were 15 to 30 basis points lower on medium-term notes and unchanged to slightly higher on long-term bonds.

The volatile markets are, however, taking their toll on new issue volume, which shrank to a relatively modest \$3.8bn last week, according to Salomon Brothers.

Paul Taylor

UK GILTS

Bank sends confusing interest rate signals

THE BANK OF ENGLAND flashed a light at the money market on Friday but the market cannot decide whether it was red or amber. Some participants are even reading it as green.

Throughout the week, three-month interbank rates had been pushing downwards to 9 1/2 per cent. As this pressure mounted, the markets had found themselves increasingly short of cash towards the end of the day.

On Friday the Bank rejected the discount houses' early offers of bills and forced them to borrow at 2.30. The Bank ended up lending \$365m to the discount houses for seven days at 10 1/2 per cent. If its intention was to dampen their ardour for an early cut in bank base rates, the action may not have been severe enough.

"This is hardly anything of a signal at all," commented one

discount house gilt dealer. "The half percentage point cut is already there. If the Bank wanted to stop it they would have put a higher interest rate on." Compared to Bank 1 eligible bills, which the Bank has been buying at 9 1/2 per cent, this rate may have been punitive. Compared to weekend money bid as high as 13 per cent in the inter-bank market, it was not.

In any event, the financial markets are still buying for an early cut in bank base rates—preferably to coincide with the announcement tomorrow of provisional money supply figures for the May banking month or, failing that, with the publication of the May retail price index number on June 13.

The snag with the money supply figures is that they can be read to several different ways according to the market's mood. A common forecast for

starting M3 (the broader measure of money) is that it will have increased by three-quarters of a per cent in banking May. This itself could be considered quite reasonable after its 2.2 per cent rise in March and 3.1 per cent rise in April.

A rise of 1/2 per cent in the month would take the year on year increase to 17 per cent, two clear percentage points above the Government's target range of 11 per cent to 15 per cent, set less than three months ago. It is unclear whether the market would choose to pay more attention to the monthly or yearly figure.

The retail price index should bring more unalloyed pleasure. Both market participants and the authorities have been busy to link the last two cuts in base rates to the announcement of sharp deceleration in the retail price index, taking the view

that, as inflation moves downwards, some modest downwards adjustment of nominal interest rates is appropriate to keep real rates within shouting distance of those in other countries.

The less sanguine will recall that this month, as last, the RPI is preceded a day earlier by the labour market statistics including average earnings. They will also recall that last month, for the first time in recent memory, the market took notice of the rather depressing unit labour cost figures.

The gilts market ended last week with its most cheerful day for some time, with longer-dated stocks gaining 1 1/2 points on Friday. This helped the FT Actuaries All Stocks Index to recover to 141.31, while the 25 year high coupon yield edged down to finish the week at 9.17 per cent.

George Graham

FT/AIBD INTERNATIONAL BOND SERVICE

US BILLIAR	Issued	Price	Yield	Chg. on	Yield
STRAIGHTS					
AFC 0/3 Fin 11 3/4	100	100 1/8	11.02		
AIGC 11 89	75	100 1/8	11.02		
Amar Savings 12 89	125	100 1/8	9.70		
Australia 11 30	100	111 1/8	11.77		
Australia 11 85	300	109 1/8	11.77		
Australia 11 80	300	109 1/8	11.77		
Australia 11 75	300	109 1/8	11.77		
Australia 11 70	300	109 1/8	11.77		
Australia 11 65	300	109 1/8	11.77		
Australia 11 60	300	109 1/8	11.77		
Australia 11 55	300	109 1/8	11.77		
Australia 11 50	300	109 1/8	11.77		
Australia 11 45	300	109 1/8	11.77		
Australia 11 40	300	109 1/8	11.77		
Australia 11 35	300	109 1/8	11.77		
Australia 11 30	300	109 1/8	11.77		
Australia 11 25	300	109 1/8	11.77		
Australia 11 20	300	109 1/8	11.77		
Australia 11 15	300	109 1/8	11.77		
Australia 11 10	300	109 1/8	11.77		
Australia 11 5	300	109 1/8	11.77		
Australia 11 0	300	109 1/8	11.77		
Bank of Tokyo 12 89	100	112 1/8	11.21		
Bank of Tokyo 12 84	200	112 1/8	11.21		
Bank of Tokyo 12 79	200	112 1/8	11.21		
Bank of Tokyo 12 74	200	112 1/8	11.21		
Bank of Tokyo 12 69	200	112 1/8	11.21		
Bank of Tokyo 12 64	200	112 1/8	11.21		
Bank of Tokyo 12 59	200	112 1/8	11.21		
Bank of Tokyo 12 54	200	112 1/8	11.21		
Bank of Tokyo 12 49	200	112 1/8	11.21		
Bank of Tokyo 12 44	200	112 1/8	11.21		
Bank of Tokyo 12 39	200	112 1/8	11.21		
Bank of Tokyo 12 34	200	112 1/8	11.21		
Bank of Tokyo 12 29	200	112 1/8	11.21		
Bank of Tokyo 12 24	200	112 1/8	11.21		
Bank of Tokyo 12 19	200	112 1/8	11.21		
Bank of Tokyo 12 14	200	112 1/8	11.21		
Bank of Tokyo 12 9	200	112 1/8	11.21		
Bank of Tokyo 12 4	200	112 1/8	11.21		
Bank of Tokyo 11 99	200	112 1/8	11.21		
Bank of Tokyo 11 94	200	112 1/8	11.21		
Bank of Tokyo 11 89	200	112 1/8	11.21		
Bank of Tokyo 11 84	200	112 1/8	11.21		
Bank of Tokyo 11 79	200	112 1/8	11.21		
Bank of Tokyo 11 74	200	112 1/8	11.21		
Bank of Tokyo 11 69	200	112 1/8	11.21		
Bank of Tokyo 11 64	200	112 1/8	11.21		
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Bank of Tokyo 7 64	200	112 1/8	11.21		
Bank of Tokyo 7 59	200	112 1/8	11.21		

This announcement appears as a matter of record only.

New Issue

28th May, 1986



Banca della Svizzera Italiana (Overseas) Ltd.
(Incorporated under the laws of the Commonwealth of the Bahamas)

U.S. \$25,000,000

4 per cent. Guaranteed Notes due 1993
with "A" and "B" Warrants attached to acquire
20,000 Bearer Participation Certificates "tranche B"
of Str. 500 per value each of,
and unconditionally guaranteed by,



Banca della Svizzera Italiana
(Incorporated under the laws of Switzerland)

Issue Price 100½ per cent.

Union Bank of Switzerland (Securities) Limited	Banca della Svizzera Italiana
Credit Suisse First Boston Limited	Daiwa Europe Limited
Deutsche Bank Capital Markets Limited	Irving Trust International Limited
Swiss Bank Corporation International Limited	

This announcement appears as a matter of record only.

New Issue

2nd June, 1986



A/S EKSPORTFINANS
(Forretningsbankenes Finansierings- og Eksportkreditinstitutt)
(Incorporated in the Kingdom of Norway with limited liability)

U.S. \$100,000,000
7½ per cent. Notes due 1993
and
100,000 Income Warrants
to subscribe for
U.S. \$100,000,000
8½ per cent. Notes due 1993

Issue Prices: 7½ per cent. Notes - 100% per cent.
Warrants - U.S. \$75 per Warrant

Union Bank of Switzerland (Securities) Limited

Banque Bruxelles Lambert S.A.	Banque Nationale de Paris
Daiwa Europe Limited	Deutsche Bank Capital Markets Limited
Fuji International Finance Limited	Lloyds Merchant Bank Limited
Mitsubishi Trust & Banking Corporation (Europe) S.A.	The National Bank of Kuwait S.A.K.
The Nikko Securities Co., (Europe) Ltd.	Nomura International Limited
Orion Royal Bank Limited	Smith Barney, Harris Upham & Co. Incorporated
Svenska Handelsbanken Group	Yamaichi International (Europe) Limited

This announcement appears as a matter of record only.

New Issue

26th April, 1986



U.S. \$100,000,000

Province of New Brunswick
(Canada)

8 per cent. Notes due 1996
of which
U.S. \$75,000,000 are being issued as an initial tranche

Issue Price of the initial tranche: 99½ per cent.

Union Bank of Switzerland (Securities) Limited

Bankers Trust International Limited	Banque Bruxelles Lambert S.A.
CIBC Limited	Chase Investment Bank
Crédit Commercial de France	Crédit Lyonnais
Deutsche Bank Capital Markets Limited	Dominion Securities Pitfield Limited
The Nikko Securities Co., (Europe) Ltd.	Orion Royal Bank Limited
Swiss Bank Corporation International Limited	S. G. Warburg & Co. Ltd
Wood Gundy Inc.	
Julius Baer International Limited	Banca del Gottardo
Bank Leu International Ltd	Nesbitt, Thomson Limited
Richardson Greenshields of Canada (U.K.) Limited	Swiss Volksbank

This announcement appears as a matter of record only.

New Issue

20th May, 1986

**NOVA
AN ALBERTA
CORPORATION**



Can. \$100,000,000

10% Series B Debentures due May 20, 1996
Issue Price 101½%

and
100,000 9¾% Income Warrants to subscribe for
U.S. \$100,000,000 8¾% Series C Debentures due January 20, 1994

Issue Price U.S. \$100 per Warrant

Union Bank of Switzerland (Securities) Limited

Bank of Montreal	The Bank of Nova Scotia
Banque Bruxelles Lambert S.A.	Citicorp Investment Bank Limited
Commerzbank Aktiengesellschaft	Crédit Commercial de France
Dominion Securities Pitfield Limited	EBC Amro Bank Limited
Kreditbank S.A. Luxembourgise	McLeod Young Weir International Limited
The Nikko Securities Co., (Europe) Ltd.	Orion Royal Bank Limited
S. G. Warburg & Co. Ltd.	Westdeutsche Landesbank Girozentrale
Wood Gundy Inc.	
Banca della Svizzera Italiana	Leu Securities Limited
B. Metzler Seel Sohn & Co	Swiss Volksbank
	Lloyds Merchant Bank Limited
	Vercus- und Westbank Aktiengesellschaft

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

BELGIAN STOCKS

Second market gains another entrant

A FAST growing computer rental concern today becomes only the second company to join Belgium's 12-month-old junior stock market (second marche).

Entrants to the junior market are an even rarer phenomenon in a country whose financial authorities are deeply conservative and whose entrepreneurs are still generally reluctant to raise new capital in this way.

Until today investors interested in the junior (or "parallel") market had to content themselves with just one stock—a high flying manufacturer of modes called Telindus.

Economcom Belgium, which operates in the main North European countries and in North America, are at the moment linked only by their name and the presence in all cases except France of Mr Bouchard as major shareholder.

second marche in Belgium develops into a more substantial flow remains an open question. Listing requirements are seen as an important means of protecting Belgian investors, and there is no immediate sign that they will be relaxed.

MPH result indicates heavy loss

MULTI-PURPOSE Holdings (MPH), the diversified and controversial Malaysian Chinese investment group, has finally revealed its audited results for 1985.

Both Promptship and Mulpha International (formerly Guthrie Trading) were acquired in 1983 at a cost of around 350m ringgit, and the two units have provided big problems.

orders for new ships, and closure of Mulpha's loss-making trading lines. MPH recorded an operational pre-tax profit of 58m ringgit for 1985, on turnover of 852m ringgit, compared with a profit of 104m ringgit on turnover of 840m ringgit in 1984.

NEW INTERNATIONAL BOND ISSUES

Table with columns: Currency, Amount, Maturity, Av. life, Coupon, Price, Book Name, Offer yield. Lists various international bond issues including U.S. Dollars, D-Marks, Swiss Francs, and Sterling.

Northgate mines to forge stronger links

A STRONGER link is to be forged between two of the Northgate group mining companies, the Australian gold-producing Whim Creek Consolidated and Westfield Minerals of Toronto.

Swiss Reissue Swiss Reinsurance plans an international issue of 200,000 participation certificates of a nominal SFr 50 each in the next few months through a syndicate led by Credit Suisse First Boston, Renter reports.

Air Canada sells Jamaica stake

BY CANUTE JAMES IN KINGSTON

THE JAMAICAN Government is to buy Air Canada's 5 per cent shareholding in Air Jamaica, making that Jamaican carrier totally state-owned by the end of this year.

The move follows an earlier decision by Air Canada not to renew a contract for its minority shareholding. Air Canada has steadily reduced its stake in Air Jamaica since it was launched 16 years ago.

The 240,000 ordinary shares are to be bought by the Government for C\$2m (US\$1.4m), according to Air Jamaica representatives. Along with its minority shareholding, Air Canada has been providing technical assistance. It is not known whether the Government will now seek another foreign airline as a partner.

The announcement of the buy-out coincided with a forecast by Mr Tony Hart, chairman, that Air Jamaica would record its second consecutive operational profit this year, after nearly a decade of losses.

Air Canada's losses more than doubled to C\$46.2m (US\$32m) in the first three months of this year, compared to C\$22.1m in the first quarter of 1985. The state-owned airline, Canada's largest, blamed the deterioration mainly on greater use of discount fares and bigger discounts. Traffic volumes grew by 6 per cent and operating revenues rose by 7 per cent to C\$648m.

A steep rise in the cost of aircraft materials such as engine parts and panelling, and a higher fuel bill contributed to a 15 per cent increase in operating expenses. Mr Pierre Jeanniot, president, said that

the B 727s were sold to, and then leased back from, Guinness Peat Aviation last year, while the fifth is leased from Ansett of Australia.

The two Airbus 300s are owned outright by the company, having been purchased from the fleet of the defunct Laker Airways with the aid of a US\$100m loan from Midland Bank.

the company has implemented a "financial improvement programme" with the aim of achieving a small profit later this year. The airline plans to dispose of some aircraft and has extended a freeze on hiring staff. It is also looking for new international routes to offset the slow growth in domestic traffic.

A freighter service to Brussels and Bangkok will be introduced later this year. Air Canada is particularly keen to break the Government-aided monopoly enjoyed by Canadian Pacific Airlines, its main competitor, across the Pacific to Japan and South-East Asia.

Mr Hart said, however, that if Air Jamaica could record an operating profit of J\$85m next year, its net performance would be in the black by 1988.

Air Jamaica operates a fleet of seven aircraft, five B 727s and two Airbus 300s. Four of

Non-operating gains underpin Japanese profits

By Yoko Shibata in Tokyo

SOME 40 per cent of large Japanese industrial companies made more money in the financial year ended March 31 out of treasury operations than they did out of manufacturing, according to a survey by a Tokyo securities house.

Out of 852 industrial companies listed on the first and second sections of the Tokyo stock exchange, 375 reported that their profits were heavily underpinned by non-operating items, according to the survey carried out by Wako Securities.

By contrast, operations were hit hard by the steep appreciation of the yen during the period.

The companies surveyed suffered a combined 7.5 per cent drop in operating profits, but were able to limit the decline in their pre-tax profits to only 2.1 per cent.

According to Wako, Japanese companies have become more sophisticated in their treasury techniques, taking foreign exchange profits on the yen's appreciation by early redemption of foreign currency-denominated bond issues.

Advertisement for The Export-Import Bank of Japan, U.S. \$200,000,000, 8% Guaranteed Bonds Due 2000. Includes logos and list of participating banks.

Advertisement for Banque Indosuez, U.S. \$100,000,000, 8 1/2% Notes Due April 1991. Includes logo and list of participating banks.

Tenby Inds sees year of growth and progress

BY TERRY GARRETT

THE FULL prospectus is published this morning for the offer for sale of 10.56m shares in Tenby Industries, the UK electrical accessories and engineering businesses of BSR.

When management explains that the common theme for a group of companies is marketing philosophy then chances are they have precious little industrial fit. Such is Tenby but its shape has obviously been designed for the convenience of BSR which is basically parceling up some extraneous subsidiaries that it has collected rather than investors. Something like Bulpitt looks an interesting—and fast growing—business but there is a mature operation or two within the group. But perhaps that could be said of most quoted companies. Anyway the market will probably concentrate its attention on Tenby, the dominant accessories activity which should provide a good, though not full, recovery pushing the group as a whole towards £3m pre-tax. Eventually the idea is to use quoted paper to fund the product range into a fast and switchgear by acquisition. If all this sounds on the dull side the pricing has been pitched realistically giving a couple of points away to take and more to sector leader MK. The issue should go well enough but buyers are not going to make their fortunes on day one.

comment

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Profits pass £7m mark at GT Management

By David Goodhart

The fund management group GT Management which is due for a stock market flotation later in the summer, has announced a pre-tax profit of £7.63m (£5.6m) on turnover higher at £26.06m (£22.6m) for the year ending March 31 1986.

Woolworth chief accuses Dixons as bid battle continues

BY DAVID GOODHART

THE propaganda battle between Dixons Group and Woolworth continued over the weekend while most City observers await an increase in Dixons' bid this week from the current £1.5bn valuation to £1.8bn or £1.9bn. Mr Geoff Mulcahy, Woolworth Holdings' chief executive, accuses Dixons, in a letter to shareholders, of trying to use their "over-valued share price" to buy Woolworth, and of proposing retail plans which would seriously damage the prospects for both businesses.

EQUITIES

Table with columns: Stock, Last Price, High, Low, Change, etc. Lists various equities and their market performance.

FIXED INTEREST STOCKS

Table with columns: Stock, Last Price, High, Low, Change, etc. Lists fixed interest stocks and their market performance.

"RIGHTS" OFFERS

Table with columns: Stock, Last Price, High, Low, Change, etc. Lists rights offers and their market performance.

COMPANY NEWS IN BRIEF

RAINE INDUSTRIES says further to its announcement on March 5 that talks were in progress with a view to a possible merger with a substantial private company engaged in building and contracting, the directors of Raine announce that the discussions are still continuing.

Strata Invs.

At the end of its first seven months on April 30 1986 net asset value of Strata Investments was £28.7p or 124.3p assuming full conversion of warrants. Net revenue came out at £186,692 after tax of £103,643.

English Trust granted full banking licence

THE English Trust Company has been granted a full banking licence by the Bank of England. Mr Richard Cox-Johnson, the chairman, said the group was pleased to have achieved this status, even though the distinction between a licensed deposit-taking bank and a full banking licence is eliminated in forthcoming banking legislation. It would permit the group to expand its deposit base.

Pearson denies bid rumour

USCOUT BLAKENHAM, the chairman of Pearson—the industrial, banking and publishing group which owns the Financial Times—yesterday dismissed rumours of a bid for the company.

Bell/Morgan

The Bell Group and its associate Bell Resources, the Australian conglomerate controlled by Mr Robert Holmes a Court, has raised its stake in Morgan Crucible, the engineering and electronics group, to 13.1 per cent.

The Hammerson Group £100,000,000 Sterling Commercial Paper Programme MORGAN GUARANTY LTD has been appointed as a dealer to the above programme.

Lloyds Bank Plc U.S. \$750,000,000 Primary Capital Underwritten Floating Rate Notes - Series 1

Granville & Co. Limited Member of The National Association of Security Dealers and Investment Managers

Consolidated Gold Fields Finance PLC £75,000,000 Guaranteed Floating Rate Notes 1995 unconditionally guaranteed by Consolidated Gold Fields PLC

BANCO DI ROMA (Incorporated as a Società per Azioni in the Republic of Italy) U.S. \$150,000,000 Floating Rate Depositary Receipts due 1991

PENDING DIVIDENDS Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table.

THE BANKER TOP 500 For the past 16 years The Banker has researched and published the asset size and capital strength of the world's largest commercial banks.

FINANCIAL TIMES STOCK INDICES Table with columns: Index Name, June 6, June 5, June 4, June 3, June 2, June 1, 1986 High, 1986 Low, Since Compilation, Low

BankAmerica Corporation U.S. \$400,000,000 Floating Rate Subordinated Capital Notes Due 1997

UK COMPANY NEWS

Continuous Stationery falls deeper into red at £0.13m

STATIG SALES and a competitive reduction in margins of about 2 per cent are stated as the main reasons for the continued lack of profitability at Continuous Stationery.

For the year to end-March 1986 the company, a computer stationery printer, suffered increased pre-tax losses of £132,000 against £51,000. Turnover rose slightly from £4.01m to £4.1m.

As an indication of their faith in the future and in the light of a healthy balance sheet, the directors, who are waiving their rights to the dividend, are recommending a final payment of 0.45p, making a 0.5p total for the year. Last year's total was 1.75p. Losses per 10p share this time increased to 1.88p (0.59p), after a tax credit of £38,000 (£21,000).

Referring to the sound balance sheet, Mr W. H. Eastwood, the new chairman, says that at the year end the company had no borrowings, and since then it has maintained a positive cash position.

Although the sales and investment policy in relation to the existing business can be expected to expand the com-

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interim or final and the subdivisions shown below are based mainly on last year's divisions.

TODAY

Interim—Bradstock, Ourban Road-
port Geop. East Road, Proprietary
Mines.
Finals—Blyvooruitzicht Gold Mining,
British Benzol, Dominion International,
F. and C. Alliance Investment Trust,
Osborne and Little, PWS International,
Property and Reversionary Investments.

Property Holding and Investment Trust,
Sengon, Photographics, Southwest
Resources, Standard Fireworks,
Wazart Motor.

FUTURE DATES

Interim—Countrywide Properties June 17
Guinness June 18
Lookers June 18
Finals—Amber Industrial June 12
Caledonia Investments June 12
GSI International June 17
Hazelwood Foods June 18
Larsen June 19
Scapp June 19
Stevley Industries June 12

Barton doubled to £1.85m

Barton Group, the holding company with interests in foundry and engineering work which is a member of Caparo Group, saw pre-tax profits doubled in 1985. On turnover down from £49.01m to £47.77m taxable profit came out at £1.85m against £0.9m.

With tax higher at £583,000 (£237,000) and extraordinary debits of £105,000 (£342,000)—being mainly redundancy costs—earnings per share came out at 10.03p (2.77p).

Directors say the improvement in profit reflects improved efficiency and some recovery in the market. Further growth can be expected in the present year.

F.T. Share Information

The following securities have been added to the Share Information Services:
Asia Oil & Minerals (Section: Mines, Australians), Green (Ernest) & Partners Holdings (Industrials), RJR Nabisco (Americans).

U.S. \$150,000,000 Midland International Financial Services B.V.

(Incorporated with limited liability in the Netherlands)

Guaranteed Floating Rate Notes 1992

Guaranteed on a subordinated basis as to payment of principal (if any) and interest by Midland Bank plc

For the six months from 9th June 1986 to 9th December 1986 the Notes will carry an interest rate of 7 1/4% per annum. The interest payable on the relevant interest payment date, 9th December, 1986 against Coupon No. 13 will be U.S. \$190.82 per U.S. \$5,000 Note.

Agent Bank: Morgan Guaranty Trust Company of New York

Company Notices

SOLVAY & Cie

The general meeting of 2nd June 1986, having resolved to distribute the annual profit 1985 of a net dividend of FF 200 on each share of FF 200 net to be payable by FF 200 net or in sterling to a FF account or, in sterling to a British bank, by the following date: 15th June 1986 at 10 a.m. or after. Attention is drawn to the fact that the dividend is subject to the payment of the necessary tax. Shareholders should note that under the terms of the Luxembourg Double Taxation Convention, Solvay Shareholders resident in the U.K. are eligible upon submitting a duly completed Form 279 Div. to partial reimbursement of Belgian Withholding Tax equal to 12.5% of the net dividend.

Payment can be made only to persons resident outside the Belgium-Luxembourg Customs Union. Shareholders should note that under the terms of the Luxembourg Double Taxation Convention, Solvay Shareholders resident in the U.K. are eligible upon submitting a duly completed Form 279 Div. to partial reimbursement of Belgian Withholding Tax equal to 12.5% of the net dividend.

Contracts and Tenders

ALGERIE - الجزائر

REPUBLIQUE ALGERIENNE DEMOCRATIQUE ET POPULAIRE

(Algerian Popular Democratic Republic)

MINISTRY OF COMMERCE
NATIONAL COMPANY FOR THE PROVISION OF FOODSTUFFS
NOTICE OF INTERNATIONAL OPEN INVITATION TO TENDER
NUMBER 14

An international invitation to Tender is being launched for the supply of fresh pasteurised butter in 25kg blocks net.

Companies interested may obtain the specifications from the Algerian Embassy in their country of origin, from their own Embassy in Algeria, or from:

E.N.A.P.A.L.
29 RUE LARBI BEN M'HIDI, ALGIERS

This invitation to tender is intended solely for companies from the following countries: Australia, New Zealand, Argentina and Canada.

Offers should be sent in a double-sealed envelope, bearing no identification, and should read: "APPEL D'OFFRES INTERNATIONAL NO. 14 BEURRE FRAIS PASTEURISE."

The final date for receipt of Tenders is 30/6/1986. Tenderers shall be bound by their proposal for a period of 90 days with effect from the closing date of this notice.

This advertisement complies with the requirements of the Council of The Stock Exchange. It does not constitute an offer of, or invitation to subscribe for or purchase, any securities.

New Zealand



U.S. \$100,000,000
7 3/4% Bonds Due 1990
and
U.S. \$100,000,000
8% Bonds Due 1993

The following have agreed to subscribe or procure subscribers for the above Bonds:

- | | |
|--|--|
| Credit Suisse First Boston Limited | Banque Paribas Capital Markets Limited |
| Citicorp Investment Bank Limited | Commerzbank Aktiengesellschaft |
| County Bank Limited | Deutsche Bank Capital Markets Limited |
| Kidder, Peabody International Limited | Merrill Lynch International & Co. |
| Nomura International Limited | Orion Royal Bank Limited |
| Salomon Brothers International Limited | Swiss Bank Corporation International Limited |
| Union Bank of Switzerland (Securities) Limited | S. G. Warburg & Co. Ltd. |

Application has been made for the Bonds due 1990 and the Bonds due 1993, issued at 100 1/4 per cent. and 99 1/4 per cent. of their principal amount respectively, to be admitted to the Official List by the Council of The Stock Exchange. Interest will be payable annually in arrear on 18th June, the first payment being made on 18th June, 1987.

Particulars are available in the statistical services of Extel Statistical Services Limited. Copies of the particulars may be obtained in the form of an Extel Card during usual business hours on any weekday (Saturdays and public holidays excepted) from the Company Announcements Office of the Quotations Department of The Stock Exchange, Throgmorton Street, London EC2, up to and including 11th June, 1986 or during usual business hours on any weekday (Saturdays and public holidays excepted) up to and including 23rd June, 1986 from:

- | | | |
|---|--|--|
| Credit Suisse First Boston Limited,
22 Bishopsgate,
London EC2N 4BQ | Rowe & Pitman Ltd.,
1 Finsbury Avenue,
London EC2M 2PA | Kreditbank N.V.,
40 Basinghall Street,
London EC2V 5DE |
|---|--|--|

9th June, 1986

This advertisement is issued in compliance with the requirements of The Council of The Stock Exchange. It does not constitute an offer of, or invitation to the public to subscribe for, or to purchase, any securities. The securities referred to below have not been registered under the United States Securities Act of 1933 and may not be offered, sold or delivered directly or indirectly in the United States of America, its territories or possessions or to United States persons.

General Motors Acceptance Corporation

(Incorporated in the state of New York, United States of America)

U.S. \$200,000,000

8 1/2% Notes Due 1993

The following have agreed to purchase the Notes:

- | | |
|--|---|
| Merrill Lynch International & Co. | Deutsche Bank Capital Markets Limited |
| Credit Suisse First Boston Limited | Nomura International Limited |
| Morgan Stanley International | Swiss Bank Corporation International Limited |
| Salomon Brothers International Limited | Union Bank of Switzerland (Securities) Limited |
| Algemene Bank Nederland N.V. | Bank of America International Limited |
| Bank Brussel Lambert N.V. | Bankers Trust International Limited |
| Banque Générale du Luxembourg S.A. | Banque Nationale de Paris |
| Commerzbank Aktiengesellschaft | County Bank Limited |
| Crédit Lyonnais | Dai-ichi Kangyo International Limited |
| Daiwa Europe Limited | Generale Bank |
| Genossenschaftliche Zentralbank Aktiengesellschaft | IBJ International Limited |
| Leu Securities Limited | LTCB International Limited |
| Manufacturers Hanover Limited | Mitsubishi Finance International Limited |
| The Nikko Securities Co., (Europe) Ltd. | Nippon Credit International (Hong Kong) Limited |
| Orion Royal Bank Limited | Société Générale |
| Suimitomo Trust International Limited | Westdeutsche Landesbank Girozentrale |

Application has been made to the Council of The Stock Exchange for the Notes, in the denomination of U.S.\$5,000 each, with an issue price of 101 per cent., to be admitted to the Official List. Interest on the Notes is payable annually in arrears on 25 June, commencing on 25 June, 1987.

Listing particulars relating to the Notes and the Issuer are available in the statistical services of Extel Statistical Services Limited. Copies may be obtained during usual business hours on any weekday (Saturdays and public holidays excepted) up to and including 11 June, 1986, from the Company Announcements Office of The Stock Exchange, London EC2 and up to and including 23 June, 1986 and are available from:

- | | |
|--|---|
| Cazenove & Co.,
12, Tokenhouse Yard,
London, EC2R 7AN. | Chemical Bank,
180, Strand,
London, WC2R 1ET. |
|--|---|

9 June, 1986

This announcement appears as a matter of record only

April 16, 1986



FF 400,000,000

REPUBLIC OF FINLAND

7 3/4 per cent Bonds due 1996

Issue Price: 100 1/2 per cent.

Application has been made to list the Bonds on the Luxembourg Stock Exchange.

The Bonds will initially be represented by a temporary certificate which will be deposited with a common depository for Cedel S.A. and Euroclear on or about May 6th, 1986 which will be exchangeable for definitive Bonds on or about August 6, 1986.

- | | |
|--|---------------------------------------|
| Banque Nationale de Paris | Dresdner Bank Aktiengesellschaft |
| Credit Suisse First Boston Limited | Banque Bruxelles Lambert S.A. |
| Algemene Bank Nederland N.V. | Caisse des Dépôts et Consignations |
| Banque Indosuez | Crédit Commercial de France |
| Citicorp Investment Bank Limited | Daiwa Europe Limited |
| Crédit Lyonnais | Deutsche Bank Capital Markets Limited |
| Deutsche Bank Capital Markets Limited | EBC Amro Bank Limited |
| Goldman Sachs International Corp. | Kansallis Banking Group |
| Morgan Guaranty Ltd | Morgan Stanley International |
| Postipankki | Société Générale |
| Swiss Bank Corporation International Limited | Union Bank of Finland Ltd |
| Union Bank of Switzerland (Securities) Limited | S.G. Warburg & Co. Ltd. |

US PERSONAL COMPUTER MARKET

Foreign clones spark a mid-life crisis

An American industry is growing old ungracefully, reports Louise Kehoe

APPLE COMPUTER is 10 years old. It is five years since IBM entered the US personal computer market, and Lotus 1-2-3 has been around for four years. Already, the personal computer industry is maturing, but like other formerly high-growth, high-tech businesses, it is not growing old gracefully.

The excitement and glamour of the early days of personal computing have faded, along with soaring sales growth. The US personal computer boom is over. What remains is an industry that sells "commodity" products to a largely predefined market, two-thirds of which is now reckoned to be replacement business.

Sales growth has ground to a halt. Last year sales were flat at about \$15bn. This year, for the first time, sales have declined. According to InfoCorp, an industry research group, in March retail sales fell 15 per cent in volume and 25 per cent in value compared to a year ago.

While demand for personal computers — from businesses and individuals — is holding up, personal computer prices are falling fast so much a personal computer industry profit slump, says Ken Water, president of Computerland, the largest US computer retailer with 600 franchised stores in the US and 200 abroad.

So far this year, prices have fallen 20 per cent on average. Some expect the decline will be 40 per cent by the end of the year.

IBM, the leading US personal computer maker, cut the prices of its most popular models by 15 to 25 per cent last month. Since then, many of IBM's competitors have retaliated with matching price cuts.

The fall in prices has been accelerated by an influx of cheap IBM-compatible PC "clones" from the Far East. These machines, made in Korea, Taiwan, Hong Kong, and Singapore, mimic the features of IBM's personal computers and can use the same software.

Leading Edge, which sells clones made in Korea, has won about 5 per cent of the US retail personal computer market in less than a year. Its version of a basic IBM-like PC costs \$500 less than the original Zenith and Tandy. Epson of Japan has also successfully sold clone PCs.

After this month Computerland is expected to launch another own-brand Korean-made clone, significantly increasing the distribution of

clones in the US.

Even cheaper than brand-name clones are the "generics" or no-name computers. These are either imported from the Far East and sold through mail order, or assembled in the US by a growing band of garage-style operations. Prices start at under \$300.

"Price is now the major issue—price and compatibility—that is what counts," says Ken Water.

Robert Dilworth, president of Zenith Data Systems, a division of the consumer electronics company which has recently won multi-million dollar contracts to supply IBM-compatible personal computers to the US military and the US internal revenue service, agrees: "The personal computer has become a commodity product, like radios, televisions and video cassette recorders."

He chides computer makers who still try to sell the "bells and whistles" or technical features of personal computers. "We have to learn how to market our products the way Procter & Gamble markets soap or toothpaste," he says.

The sharp drop in prices has put the basic IBM personal computer, and its clones, within reach of the boom computer market. The IBM-compatible machine is expected to become a popular consumer item by next Christmas. These machines represent a threat to Apple Computer which dominates the home market.

IBM and Compaq, which sells higher priced IBM-compatible machines, still dominate the corporate personal computer market, but they are challenged by a rash of high performance clones which undercut IBM's top of the line "PC AT" computer.

In March, sales of compatible computers outsold IBM for the first time. IBM's share of the US market has declined from about 65 per cent at the beginning of 1985 to 45 per cent, market researchers say. IBM will not comment on its market share and says its sales remain strong.

IBM is not flattered by its imitators. Last month William Lowe, president of IBM entry-systems division, warned clone makers that they will "have to move very quickly indeed to remain compatible" with IBM's personal computers. By speeding up introduction of technical improvements to its personal computers, such as high resolution graphics or network communications capabilities, IBM aims to leave competitors behind.

It will, however, be difficult for IBM to change its personal computers enough to throw clone makers off track because its personal computers are built upon widely available standard parts — Intel microprocessors and a computer operating system published by Microsoft. This combination has become an industry standard that is all too easy to copy.

"IBM can only turn a few degrees at a time," says Egil Juliusen chairman of Future Computing, an industry analysis company. "They can make it rougher for competitors," he says. "But they cannot move away from the industry standard."

Michael Ares of Chips and Technologies, a Silicon Valley company that sells sets of chips to clone makers adds: "It took two years for clones of the original PC and PC XT models to appear, but only nine months before clone makers copied the PC AT. The competitive pace is quickening."

Compaq, the leading IBM-compatible manufacturer, will beat IBM to the market with a personal computer built around Intel's latest microprocessor, the 386, he predicts. "The days when IBM owns the personal computer business are over."

Such bold assertions may be unwise. Picking a fight with the world's biggest computer company can lead to defeat—as many computer companies can testify. IBM will retain a

controlling share of the personal computer market, industry veterans believe, although it is unclear yet exactly how the company will assert itself.

IBM's chief weapon, however, will be automation. The IBM PC convertible a "lap top" portable unit introduced in the US last month, is to be manufactured on a robot-driven production line in Austin, Texas. Every step of the manufacturing process is automated, from receiving dock to shipping dock. IBM is expected to apply its advanced manufacturing technology to all future PC products.

An even more serious problem for IBM and other US computer manufacturers is the poor financial condition of the retailers that sell close to 70 per cent of PCs in the US. 1985 was a terrible year for computer retailers. Evidence of their financial distress can be seen on the high streets and in shopping malls throughout the US. Personal computer stores have been going out of business by the dozen.

Leading manufacturers are agreed that there are too many computer stores chasing too few buyers, IBM placed a moratorium on signing up new dealers last November. Compaq has been limiting its new dealerships for over a year, and Apple Computer took the unprecedented step of firing 600 of its dealers in March.

"The reason why the computer market is well accepted in Korea is not necessarily because we produced any breakthrough in technology," says Mr Sung Kyoo Park, executive vice-president of Daewoo Telecom. "We started purely from the market."

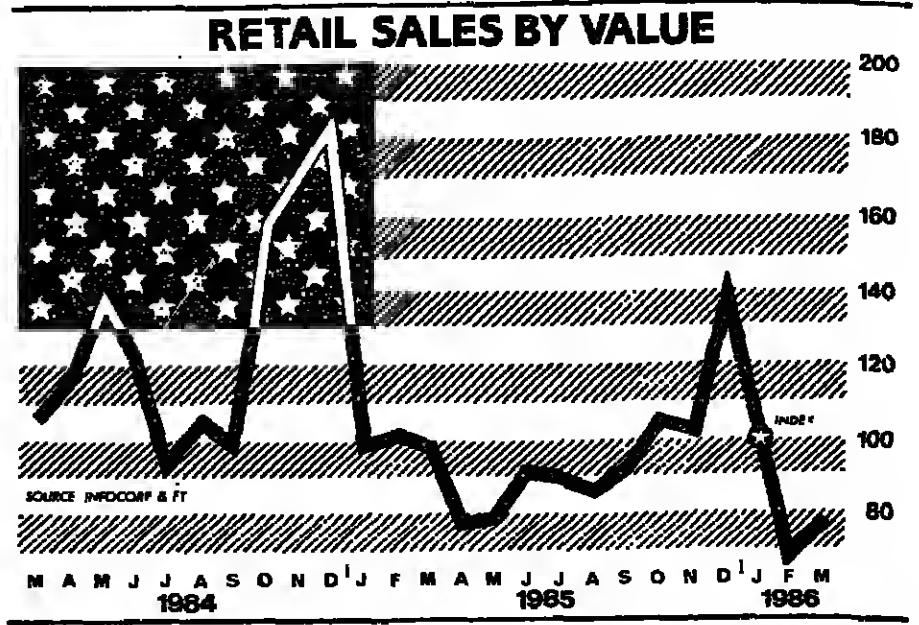
The idea for the computer came in early 1984, when sales of personal computers in the US sagged badly. "My belief was that the growth (of PC sales) had slowed because new computers were not really new. Users of computers were becoming more and more educated about computers and knew what they wanted."

The main concept behind the computer was simple—to put into a standard package features that users of IBM PCs and IBM clones were frequently paying hundreds of dollars to add on to their

machines. Daewoo built into high resolution graphics capability. In most computers these are available only by inserting expensive circuit boards into expansion slots in the computer.

Mr Park compares the packaging of features to the merging of several small companies, after which overhead costs can be reduced by management redundancies. By combining the features, the number of components goes down, with more packaged into the mother board, or main circuit board. Manufacturing economies then can be achieved, and extra distribution costs eliminated, substantially bringing down the final price.

The Model D retails for \$1495 in the US compared with \$2785 for the IBM PC without the expansion boards. Daewoo has easily undercut



design began, and Daewoo was able to respond.

It is difficult to change things in a large outfit like IBM," says Mr Park. IBM has redesigned the keyboard for its new AT computer but hasn't changed the keyboard for the original PC.

The computer is not the result of any sophisticated study of the market. Mr Park went to the US ten times himself and spent some of his time talking with computer dealers. "Once you get inside something, and go very deeply into it, you develop a sixth sense," he says.

Memory capacity is expanded from the standard 256K to 640K by inserting two small memory chips into the mother board instead of adding on whole circuit boards into expansion slots. That leaves the four expansion slots available to accept a variety of accessory boards.

The result is a machine that

does nothing an IBM PC cannot do, but it does it for far less money, using newer technology, in a creatively redesigned package that has won positive reviews in the specialist press.

Mr Park admits that the Daewoo machine has succeeded in part because of the changes among computer buyers. Computers have become more of a commodity product, with brand loyalty less important than features and cost. While that helped Daewoo make a name quickly, it could push it out of the market just as fast.

Mr Park does not think that will happen to the Model D for a few years, but he is not taking any chances. Daewoo has another computer that has now gone through the development stage. Mr Park says the company has not decided when to start production, and he's saying nothing about what the machine will look like.

My guess is that consolidation will take the form of stores going out of business, rather than stores being bought," says Will Luden, president of Pactel Infosystems, the California Phone Company's retail computer and office systems marketing venture.

Severe competition among the 4,000 odd computer stores has led to fierce discounting of personal computer prices, leaving profit margins shaved dangerously thin.

Says Ken Water: "We have been our own worst enemy. A different industry might have chosen to compete on quality, or service, but this industry has chosen to fight it out on price."

Many are trying to transform themselves from "box pushers" into "solution sellers" who offer customers training, support and a repair service—the "value added" in computer sales—as a way to increase profits.

But even quality dealers face a significant challenge in resolving the gulf between the full-service, full-price, philosophy and the reality of winning busi-

Sixth sense that helped Daewoo muscle in on IBM's market

Steven Butler on the challenge from Korea

There is little surprise that a best-selling IBM clone personal computer is made in Korea. The surprise is that a Korean company, Daewoo Telecom, designed and engineered the machine, which is now sold in the US as the Leading Edge "Model D."

Korean electronics companies have excelled at low cost manufacturing, but they have not established a reputation for design innovation.

Sales of the computer began to take off last autumn after Consumer Reports magazine dubbed it a "best buy." Consumers are now taking them off store shelves faster than Leading Edge can supply them. Daewoo does not like to talk about exact sale figures, but Dataquest, the research company, estimated 1985 sales at 50,000 units, and predicts 80,000 units this year. Daewoo says that is conservative.

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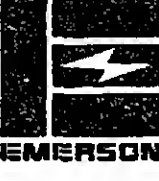
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NEW ISSUE These Notes having been sold, this announcement appears as a matter of record only. MAY, 1986



US\$100,000,000

Emerson Electric Co.

77% Notes Due 1998

Issue Price 101 3/4%

IBJ International Limited

Goldman Sachs International Corp.	The Nikko Securities Co., (Europe) Ltd.
Algemene Bank Nederland N.V.	Bank of Tokyo International Limited
Banque Paribas Capital Markets Limited	Daiwa Europe Limited
Dresdner Bank Aktiengesellschaft	First Chicago Limited
Fuji International Finance Limited	Kleinwort, Benson Limited
Merrill Lynch Capital Markets	Mitsubishi Finance International Limited
Mitsui Finance International Limited	Nomura International Limited
Sumitomo Finance International	

NEW ISSUE These Bonds having been sold, this announcement appears as a matter of record only. MAY, 1986

EUROFIMA

SOCIÉTÉ EUROPÉENNE POUR LE FINANCEMENT DE MATÉRIEL FERROVIAIRE

Japanese Yen 10,000,000,000

55% per cent. Bonds due 1993

Issue Price: 101 1/2 per cent.

IBJ International Limited

Chuo Trust Asia Limited	Swiss Bank Corporation International Limited
Bank of Tokyo International Limited	Banque Bruxelles Lambert S.A.
Berliner Handels- und Frankfurter Bank	Crédit Commercial de France
Credit Suisse First Boston Limited	Daiwa Europe Limited
EBC Amro Bank Limited	Fuji International Finance Limited
Istituto Bancario San Paolo di Torino (London Branch)	Kleinwort, Benson Limited
LTCB International Limited	Merrill Lynch Capital Markets
Mitsubishi Finance International Limited	The Nikko Securities Co., (Europe) Ltd.
Nomura International Limited	Société Générale
Sumitomo Finance International	S.G. Warburg & Co. Ltd.
Yamaichi International (Europe) Limited	

INTL. APPOINTMENTS

New chief executive for American Home Products

BY WILLIAM HALL IN NEW YORK

MR JOHN F. STAFFORD, aged 48, is to take over as December 1 as chairman and chief executive of the New York-based American Home Products, which has increased its earnings every year for the last 33 years, and is regarded by Wall Street analysts as one of the most successful pharmaceutical and consumer products groups in the world.

The 60-year-old company is renowned for being a cost-conscious marketer of hundreds of consumer products which range from prescription pharmaceuticals to household products like Amalin and household products like Brach's candy and Easy-Off oven cleaner. Last year the company earned \$717m on sales of \$4.7bn and the company's return on shareholders' equity has averaged 30 per cent over

the last two decades. Ten years ago the group earned \$250.7m on sales of \$2.2bn, and it is currently capitalised at \$1.7bn on Wall Street. The company spent a record \$317m on research and development last year and has 24 new drug applications and 48 investigative new drug applications filed with the Food and Drug Administration. Mr Stafford is a lawyer by training and spent his early career with the Washington law firm of Steptoe & Johnson before joining Hoffmann-La Roche's legal staff in the mid-1960s. In 1970 he joined American Home Products.

Morton Thiokol re-instatements

BY PAUL TAYLOR IN NEW YORK

MORTON THIOKOL, the Chicago-based aerospace group involved in the Challenger spacecraft which exploded in January, has re-instated to their old jobs two engineers earlier transferred after giving critical testimony before the Presidential Commission investigating the accident.

The two engineers, also named later that Thiokol had penalised them by transferring their jobs after their public testimony—Mr William Rogers, chairman of the commission, termed that re-assignment "shocking" although Thiokol sharply denied the allegation. The two engineers will now play a key role in working to redesign the booster rockets.

Mr Morton Thiokol has also re-shuffled space division managers involved in the launch decision. Two officials who over-ruled the engineers' recommendations against the shuttle launch were re-assigned, and a third manager involved in the launch decision, James Klimister, vice-president of the group's space booster programme, who signed the launch authorisation over-riding his staff engineers, Mr Clayton Wiggins, vice-president and assistant general manager of the Wasatch space division, and Mr Jerald Mason, senior vice-president of operations in the division who is taking early retirement.

Crawford takes top job at Imasco

BY ROBERT GIBBENS IN MONTREAL

MR PURDY CRAWFORD, 54, a former Toronto corporation lawyer, appointed president and chief operating officer of Imasco, the consumer products group, in July, 1964, is to take over as chief executive on July 1 from Mr Paul Pare.

Mr Pare, main architect of Imasco's transformation from a tobacco products manufacturer into a diversified consumer products group with the resources to take over Genstar Corporation, the financial services building materials and real estate concern, for \$2,600 (US\$1.5bn) this spring, will continue as chairman until he retires next spring at 65.

Imperial Tobacco Company of Canada, and steered it to the leading place in the Canadian tobacco products market and major distribution into drug, grocery, retailing in Canada and the US and fast-food retailing in the US through Hardee's food systems. The company has kept up an annual growth rate of 20 per cent and its fourth leg is now financial services through Canada Trust, Canada's seventh-largest financial institution. Canada Trust will be the only part of Genstar that Imasco will retain, and its building materials, waste management and real estate assets will shortly be sold.

Kyowa Bank plans changed leadership roles

KYOWA BANK, the Tokyo-based commercial bank, plans to promote Mr Koukei Yokote, 55, vice president to president, in succession to Mr Tetsuo Yamataka, reports Kyodo. A formal decision is expected at a board meeting after a general meeting of stockholders on June 27.

Mr Yamataka is proposed as chairman, and the current chairman, Mr Yoshiaki Irobe, 74, as an adviser. Mr Yokote joined the bank in 1953 and has been vice president since last June.

Mr Eishiro Saito, chairman of Nippon Steel Corporation, has been elected President of Japan's Federation of Economic Organisations (Keidanren), reports Kyodo from Tokyo. Mr Saito, 71, who has been a vice president of Keidanren since 1960, takes over from Mr Yoshihiro Inayama, who held the post for three consecutive terms over a six-year period.

F.T. CROSSWORD PUZZLE No. 6,042

Crossword puzzle grid with numbers 1-30 and letters A-Z. Includes 'ACROSS' and 'DOWN' clues.

- ACROSS
1 Ambassador for example entering behind schedule (8)
2 Most mean to be superlatively drunk (8)
3 Fearing a strong attack (6)
4 He will excuse one for having finished with fish-round (8)
5 That which is given to actor in love perhaps (5)
6 Taken all round some prefer it neat (8)
7 Cross over entrance (4)
8 Object to worker's religious persuasion (10)
9 Would rather males took first promotion (10)
10 Tree to be seen in Canada certainly (4)
11 Spotted southern bird in journalist's clutch (8)
12 Beaten and covered with sticky paste (8)
13 Source of trouble in washing machine? (8)
14 Dickensian often heard on commercial television (8)
15 Have meal in lane whilst begging (8)
16 In the case of Stevenson, the night before the big jinks (8)
17 Club chief has a point (7)
18 Opinion on chandelier (9)
19 Distortion in part from Mohammedan leader (4)
20 This one perhaps he puts pleasure first (8)
21 Weariness due to some un-zorseen nuisance (5)
22 Stream of rubbish about air-charge (7)
23 Try turning outside concerts into organised massacres (7)
24 Note rejected by Scot—one of the old school? (7)
25 Have discussion about Christian love with leading villain (4, 5)
26 Banish soldier-deputy (8)
27 Quietly refer to churchman (7)
28 Put right or get changed (7)
29 Way to open fire in contest (10)
30 Indicate that which is relevant (5)
31 He usually invites quite a crowd (4)
32 The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.

Lead changes at Clark Equipment

CLARK EQUIPMENT Company, the South Bend, Indiana-based concern that includes being the leading US manufacturer of forklift trucks in its construction equipment and other business, has elected Mr Leo J. McKernan, 48, chief executive on the resignation from this post and that of chairman Mr James R. Riebart, 83.

Australia Wool Council

MR HUGH BEGGS has been elected president of the Wool Council of Australia. Mr Beggs, 47, succeeds Mr Neville Corman, who has retired on health grounds.

Advertisement for Ireland £100,000,000 Floating Rate Notes 1968. Includes details about the notes and contact information for Samuel Montagu & Co Limited.

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

Large table listing various unit trusts, their managers, and performance data. Columns include trust names, managers, and various financial metrics.

AUTHORISED UNIT TRUSTS & INSURANCES

Main table containing financial data for various unit trusts and insurance companies, including columns for company names, fund names, and numerical values.

INSURANCES

Table listing insurance companies and their associated financial data, including names like AA Friendly Societies and various insurance policies.

INSURANCE, OVERSEAS & MONEY FUNDS

Table listing various insurance and overseas funds with columns for fund name, company, and performance metrics.

Table listing various money funds with columns for fund name, company, and performance metrics.

Table listing various international and specialty funds with columns for fund name, company, and performance metrics.

OFFSHORE AND OVERSEAS

Table listing offshore and overseas investment funds with columns for fund name, company, and performance metrics.

TRADITIONAL OPTIONS

Table listing traditional investment options with columns for option name, company, and performance metrics.

MONEY MARKET BANK ACCOUNTS

Table listing money market bank accounts with columns for account name, bank, and performance metrics.

Notes and disclaimers regarding the data presented in the tables, including references to the London Stock Exchange.

BRITISH FUNDS - Table with columns: Fund Name, Price, Last, Div, Yield. Includes sections for 'Shorts' (Lives up to Five Years), 'Five to Fifteen Years', and 'Over Fifteen Years'.

AMERICANS - Table with columns: Fund Name, Price, Last, Div, Yield. Includes sections for 'Shorts' (Lives up to Five Years), 'Five to Fifteen Years', and 'Over Fifteen Years'.

LONDON SHARE SERVICE - Table with columns: Company Name, Price, Last, Div, Yield. Includes sections for BUILDING, TIMBER, ROADS - Cont., DRAPERY & STORES - Cont., ELECTRICALS, CHEMICALS, PLASTICS, BANKS, HP & LEASING, GOVT. BANK AND O'SEAS INT. BANKING, COMMONWEALTH & AFRICAN LOANS, BEERS, WINES & SPIRITS, BUILDING, TIMBER, ROADS, and ENGINEERING.

INDUSTRIALS - Table with columns: Company Name, Price, Last, Div, Yield. Includes sections for FOOD, GROCERIES, ETC., HOTELS AND CATERERS, and INDUSTRIALS (Miscellaneous).

Handwritten signature or scribble at the bottom center of the page.

New Issue

June 1986

6 3/4% Bearer Bonds of 1986 (1994) Series II

Kreditanstalt für Wiederaufbau
Offer for Sale

Kreditanstalt für Wiederaufbau, Frankfurt am Main, issues 6 3/4% Bearer Bonds of 1986 (1994) Series II in a total amount of **DM 750,000,000.-**

The net proceeds of this issue will be used for long-term investment loans. DM 700,000,000.- of this amount are offered for sale by the syndicate of banks listed below.

Issue Price:	99 1/2% plus Stock Exchange Turnover Tax with adjustment of interest.
Interest:	6 3/4% p.a., payable annually in arrears on June 1, of each year. The first interest coupon will be due on June 1, 1987.
Denomination:	DM 100.- or a multiple thereof.
Lifetime/Redemption:	8 years. The Bonds will be redeemed on June 1, 1994 at par. Redemption prior to maturity is excluded.
Ranking as Trust Investments/Eligibility for Investments by Insurance Companies:	The Bonds rank as trust investments and are eligible for investments by insurance companies, according to the German laws.
Listing:	The Bonds will be admitted for trading and official quotation on all stock exchanges of the Federal Republic of Germany, including Berlin.
Eligibility as Collateral for Loans by Deutsche Bundesbank ("Iombardfähig"):	The Bonds are eligible as collateral for loans by Deutsche Bundesbank ("Iombardfähig") upon admittance for trading and official quotation.
Delivery:	The Bondholder receives a Central Deposit Advice from the bank appointed by him. Debitive Bonds will not be available. The Bond issue will be evidenced by one Global Certificate.
Sales:	The Bonds will be offered for sale by the undersigned banks as from today.
Stock Index Number:	276 033.

The detailed Offer for Sale to be published in the Bundesanzeiger (German Federal Gazette) is available from the banks. Allotments of Bonds will be at the discretion of the selling banks.

Frankfurt am Main, June 1986



- ADC A-Bank Aktiengesellschaft
- Allgemeine Deutsche Credit-Anstalt
- Arab Banking Corporation
- Quay & Co GmbH
- Bankhaus H. Aufhäuser
- Baden-Württembergische Bank Aktiengesellschaft
- Badische Kommunale Landesbank - Grozentrale
- Bankunion Frankfurt am Main Aktiengesellschaft
- Bank für Gemeinwirtschaft Aktiengesellschaft
- Bank für Handel und Industrie Aktiengesellschaft
- Bayerische Hypothek- und Wechselbank Aktiengesellschaft
- Bayerische Landesbank Grozentrale
- Bayerische Vereinsbank Aktiengesellschaft
- John. Benenber. Goslar & Co. Aktiengesellschaft
- Berliner Bank Aktiengesellschaft
- Berliner Commerzbank Aktiengesellschaft
- Berliner Handel- und Bank für Handel Bank
- Bankhaus Gebroder Bethmann
- Bremer Landesbank
- Kreditanstalt Oldenburg - Grozentrale
- Commerzbank Aktiengesellschaft
- Commerz-Credit-Bank AG Europartner

- CSF-Eriectenbank AG
- DeBrock & Co.
- Deutsche Bank Aktiengesellschaft
- Deutsche Bank Berlin Aktiengesellschaft
- Deutsche Bank Saar Aktiengesellschaft
- Deutsche Genossenschaftsbank und die gemessenschaftlichen Zentralbanken
- Deutsche Grozentrale
- Deutsche Kommunallbank - Deutsche Westminter Bank
- Dresdner Bank Aktiengesellschaft
- Bankhaus Max Fleuss & Co.
- Fürst Tugger-Babenhausen Bank KG
- Fürst Thurn und Taxis Bank
- Albert Fürst von Thum und Taxis
- Geestmünder Bank Aktiengesellschaft
- Hamburgische Landesbank - Grozentrale
- Handel- und Privatbank Aktiengesellschaft
- Georg Hauck & Sohn Bankiers Kommanditgesellschaft auf Aktien
- Hessische Landesbank - Grozentrale
- Von der Heyde-Kersten & Söhne
- Bankhaus Hermann Lampe Kommanditgesellschaft
- Landesbank Rheinland-Pfalz - Grozentrale

- Landesbank Saar - Grozentrale
- Landesbank Schleswig-Holstein Grozentrale
- Merck, Finck & Co.
- B. Metzger sohn & Co.
- National-Bank Aktiengesellschaft
- Bankhaus Neelmeyer Aktiengesellschaft
- Norddeutsche Landesbank Grozentrale
- Odenburgische Landesbank AG
- Sal. Oppenheim jr. & Cie. Reschler & Co.
- Schmidtbank
- Schroder, Münchmeyer, Hengst & Co.
- Schwedische Bank Aktiengesellschaft
- Schweizerische Bankgesellschaft (Deutschland) AG
- Smetbank Aktiengesellschaft
- J. H. Stein
- Imkuss & Burkhardt KGAA
- Vereins- und Westbank Aktiengesellschaft
- M. M. Wahrung-Brockmann, Wirtz & Co.
- Westdeutsche Landesbank Grozentrale
- Westfalenbank Aktiengesellschaft
- Württembergische Kommunale Landesbank Grozentrale

CONSTRUCTION CONTRACTS

Groups seek to overcome Thames crossing problems

BY JOAN GRAY, CONSTRUCTION CORRESPONDENT

THE FIRST interesting thing about the £200m-plus scheme to build a new Thames crossing at Dartford, east of London, is the way the contractors are proposing to tackle the difficult technical problems it presents.

The second is the way they are facing up to the challenge of putting forward schemes they would finance themselves, following the Government's policy of trying to attract private money for infrastructure projects and the precedent set by the Channel Tunnel project.

A new crossing is needed at Dartford because the existing twin tunnels have become overloaded with the opening of the M25 Motorway.

A variety of solutions has been put forward to solve the problem of carrying more than 27m vehicles by 1990. Ideas include bridges, immersed tube tunnels and a bored tube tunnel.

Secrecy

These proposals have been put forward by seven groups of contractors which are prepared to raise finance to back their schemes.

Costain and Tarmac, the Dartford Joint Venture led by Balfour Beatty and Taylor Woodrow; the Dartford Tunnel Group led by John Mowlem; and Laine, Christiani and Seven Seas, have all proposed submerged tube tunnels as their first choice solution.

Eurobridge with French Kier, and the Dartford Bridge Group led by Sir Robert McAlpine, have both proposed bridges; and Trafalgar House has proposed both a bridge and a bored tube tunnel.

Of these seven groupings, only John Mowlem's Dartford Tunnel Group has responded to the Government's challenge by openly declaring and promoting its scheme, for a £230m submerged tube tunnel under the Thames.

The others are behaving in the traditional manner of civil engineering companies bidding in confidence for public sector construction contracts awarded complete with finance to the lowest bidder.

For, far from indulging in any active and open marketing, the other bidders have been trying to keep their proposals as secret as possible.

And in this case, the "Most Secretive Contractor" prize has to go to Trafalgar House which, on the day the Department of Transport announced the bidders, took a top level decision not to reveal even whether its bid was for a bridge, or a tunnel, or both.

Scarred by its public failure to win both the prestigious Rosporus bridge contract and the Channel crossing, Trafalgar wanted to lobby for its preferred solution—a bridge, or the surprise choice of a bored tunnel—in private.

The decision to opt for a bored tunnel is surprising because, as a result of the severe difficulties experienced boring the last Dartford tunnel under the Thames, most of the companies have chosen a submerged tube tunnel as their preferred solution.

Mowlem's plan involves casting eight sections of tunnel, 28 metres wide, 115 metres long and weighing more than 20 tonnes each, in a specially-constructed dry dock at Cliffe Creek, 10 miles up the Thames estuary from Dartford.

Once cast, these are then floated down the Thames, sunk into place, and automatically joined on the river bed.

"The concept is simple," says Mr Roger Sainsbury, the John Mowlem director in charge of bidding for the project. "But it needs a lot of experience to make it work in practice."

hence his group's inclusion of an experienced Dutch company, Volker Stevin, in its bidding.

Balfour Beatty—which bored the last Dartford tunnel—is also including a Dutch expert, Bal-last Nedam, in its bid. Costain and Laine are relying on their own previous experience in building immersed tube tunnels.

But the reasons for choosing an immersed tube this time are explained most vividly by Balfour Beatty director, Mr David Cowthra.

"Our judgment against a bored tunnel was influenced by the cost of doing it last time, where we ran into difficult ground conditions. That contract is still the subject of dispute," he said.

to build because of the ventilation required for heavy goods vehicles.

But Trafalgar's favourite solution is building a bridge.

This would provide work for its bridge building companies Cleveland Bridge and Redpath Dorman Long. Trafalgar is convinced that a bridge would solve some of the traffic management problems involved in a tunnel system. The new bridge could be used for heavy vehicles and hazardous cargoes, while cars and light vehicles could go through the tunnel.

The Dartford Bridge Group led by Sir Robert McAlpine also wants to build a bridge.

But whereas Trafalgar is proposing a cable-stay bridge, with the deck supported by towers, McAlpine is proposing a 600 metre span four-lane suspension bridge, where the deck is slung on cables from overhead supports. It is proposing to use technology supplied by one of its partners in the bid, the Danish bridge-builder Momborg and Torsen.

Difficult

The third grouping that is leading its proposals with a bridge is Eurobridge, with contractors Brown and Root, French Kier, and the French bridge-maker Campenon et Bernard.

Eurobridge is proposing a four-lane suspension bridge with a 500 metre span, which—using the opposite approach to Trafalgar House—would carry cars and light vehicles while lorries would be sent through the existing tunnel.

Given the weight of all the schemes except for Mowlem's, comparing the time and costs of the various proposals is difficult.

The bridge-builders are convinced they could have a new crossing completed in around three years, while the submerged tube tunnellers give this as their more optimistic estimate.

Comparing the costs is even more of a problem. But most of the proposals work out at between £80m and £100m if the Government finances the construction work. If the contractors have to finance the scheme and buy out and operate the existing toll tunnels themselves, bridges work out at about £160m and up, and tunnels at between £200m and £230m.

Bryant construction
021-704 5111
0344 426688
SOLIHULL BRACKNELL

Mechanical services at Sellafield

HADEN YOUNG has nine orders totalling £22.8m. A £8.3m contract for the Balfour Beatty Fairclough joint venture at British Nuclear Fuels, Sellafield is for mechanical services installations in the management centre and thermal oxide reprocessing plant. Two hospital contracts inelther worth £2.5m are at Warrington District General Hospital for the Merseyside Regional Health Authority; and at Furness General Hospital for the Northern Regional Health Authority. At the new Refuge Assurance headquarters in Wilmshlow, Cheshire, Haden Young will install air conditioning and mechanical services worth £1m for a 120-room Novotel hotel at Worsley, Manchester.

A £4.7m order for ICI's Millbank headquarters in London is for refurbishment of the air conditioning, mechanical, sanitary and sprinkler services; and in Phase I of the Hammersmith Hospital redevelopment scheme, Haden Young will install air conditioning and mechanical services worth £2.6m. Site work will start in November on a £23m contract awarded by Water Construction at the Royal Insurance building in Chancery Lane, London; and a further project, worth £3.2m and will also design and construct mechanical, electrical and sanitary services worth £1m for a 120-room Novotel hotel at Worsley, Manchester.

DELTA CONSTRUCTION CO has been awarded contracts worth over £3.2m for tunnelling and main drainage projects in the private and public sectors. For Sandwell Metropolitan Borough Council, acting as agent for Severn Trent Water Authority, the company is carrying out a £1.3m second phase of the Toll End to Ray Hall trunk sewer.

Two refurbishment contracts totalling £1.5m have been awarded to MICHAEL BAKER CONTRACTS for upgrading offices at the headquarters building of Cannon Assurance at Wembley and the City of London offices of solicitors Simmons & Simmons.

VIAG 1985 - Continued good performance

The VIAG Group comprises over one hundred companies operating in the energy, aluminium and chemical fields.

ENERGY - Generating structure further improved

In 1985 the VIAG electricity generating companies reported a 3.9% increase in sales to their supply areas, a figure that was higher than the German national average. Thanks to their successful operations the contribution of nuclear power stations to total supply rose to 34%. Along with hydro-power these two low cost environmentally compatible energy sources accounted for more than 50% of the total electricity generated. The 2% increase in the Group's natural gas sales was in line with general developments. On the whole, earnings in the energy sector were favorable.

ALUMINIUM - Increased processing

In a difficult year for most aluminium producers the VIAG Group recorded a satisfactory result in spite of lower proceeds in the second half of the year. Reduced sales in primary aluminium were compensated for by a growth in semi-finished and other products.

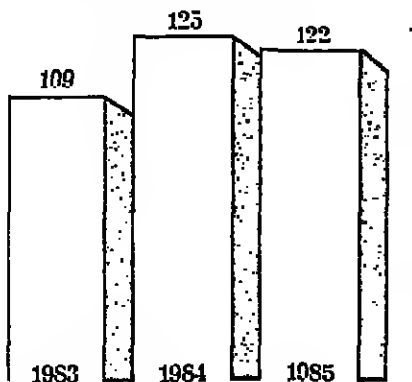
CHEMICALS - All divisions profitable

Expansion of specialty lines in 1985 combined with restructuring measures and productivity increases contributed to a successful year in this field.

DIVIDEND Raised to 10%

The VIAG Group increased total turnover by 2% to DM 12.2 billion. This increase was achieved by the energy sector. Consolidated Group external sales remained just under DM 6 billion, while the surplus of DM 122 million was at the same level as in the previous year. VIAG AG improved its earnings by 15% to DM 92 million, enabling a further strengthening of the reserves and an increased dividend from 8% to 10%.

VIAG-Consolidated-Group net income in DM million



Highlights from the VIAG-Consolidated-Group's balance sheet

(DM million)	1985	1984
Property, plant and equipment	2,405	2,341
Investments in companies not consolidated	1,035	1,135
Inventories	1,412	1,314
Liquid funds and securities	321	252
Total shareholders' equity	1,949	1,973
Long-term debts	2,619	2,482
Balance sheet total	6,224	5,986
External sales	5,919	5,973
Personnel expenditure	1,289	1,202
Taxes on income and net assets	119	261
Net income for the year	122	125
Cash-flow	725	643
Number of employees	21,985	20,979
Total sales	12,199	11,960
VIAG-Group	12,199	11,960

The complete VIAG AG balance sheet and VIAG-Consolidated-Group balance sheet as of December 31, 1985, will be published in the Federal Gazette (Bundesanzeiger) by end of June 1986. These balance sheets bear the unqualified auditor's certificate of the public accountants, Treuhand KG Harkopf + Rentrop, and Treuarbeit AG.

Large growth in fixed assets investment

The VIAG Group invested more than DM 1 billion in fixed assets. The emphasis lay in power station construction, environmental protection schemes for conventional thermal power stations and extensions to aluminium rolling capacities. Investments were financed entirely out of own cash-flow.

Positive outlook for stock exchange listing

The outlook for the 1986 business year is again favorable. VIAG is thus well prepared for the forthcoming introduction of its shares on German stock exchange where 40% of its nominal capital (DM 232 million out of a total of DM 550 million) will be offered for sale to the public.



WORLD STOCK MARKETS

AUSTRIA

Table of stock prices for Austria, including columns for 1986 High, Low, June 6 Price, and June 8 Price.

AUSTRALIA

Table of stock prices for Australia, including columns for 1986 High, Low, June 6 Price, and June 8 Price.

HONG KONG

Table of stock prices for Hong Kong, including columns for 1986 High, Low, June 6 Price, and June 8 Price.

JAPAN

Table of stock prices for Japan, including columns for 1986 High, Low, June 6 Price, and June 8 Price.

CANADA

Table of stock prices for Canada, including columns for 1986 High, Low, June 6 Price, and June 8 Price.

TORONTO

Table of closing prices for Toronto stocks on June 6.

MONTREAL

Table of closing prices for Montreal stocks on June 6.

BELGIUM/LUXEMBOURG

Table of stock prices for Belgium/Luxembourg, including columns for 1986 High, Low, June 6 Price, and June 8 Price.

ITALY

Table of stock prices for Italy, including columns for 1986 High, Low, June 6 Price, and June 8 Price.

GERMANY

Table of stock prices for Germany, including columns for 1986 High, Low, June 6 Price, and June 8 Price.

NETHERLANDS

Table of stock prices for Netherlands, including columns for 1986 High, Low, June 6 Price, and June 8 Price.

FRANCE

Table of stock prices for France, including columns for 1986 High, Low, June 6 Price, and June 8 Price.

NORWAY

Table of stock prices for Norway, including columns for 1986 High, Low, June 6 Price, and June 8 Price.

SWEDEN

Table of stock prices for Sweden, including columns for 1986 High, Low, June 6 Price, and June 8 Price.

SWITZERLAND

Table of stock prices for Switzerland, including columns for 1986 High, Low, June 6 Price, and June 8 Price.

SOUTH AFRICA

Table of stock prices for South Africa, including columns for 1986 High, Low, June 6 Price, and June 8 Price.

SINGAPORE

Table of stock prices for Singapore, including columns for 1986 High, Low, June 6 Price, and June 8 Price.

SPAIN

Table of stock prices for Spain, including columns for 1986 High, Low, June 6 Price, and June 8 Price.

OVER-THE-COUNTER

Large table of over-the-counter market closing prices for June 6, listing various international stocks.

NEW YORK

Table of stock market indices for New York, including Dow Jones, S&P 500, and NYSE.

INDICES

Table of stock market indices for various countries, including Australia, Belgium, Canada, Denmark, France, Germany, Hong Kong, Italy, Japan, Korea, Netherlands, Norway, Singapore, South Africa, Sweden, Switzerland, and Taiwan.

CANADA

Table of stock market indices for Canada, including Toronto and Montreal.

NEW YORK ACTIVE STOCKS

Table of active stock prices in New York, including various individual stocks.

IN-FLIGHT INFORMATION

Text providing information about airlines, flight routes, and services, including Aerolineas Argentinas, Air Canada, and others.

Large advertisement for Bryant Construction, featuring the company logo, contact information, and a list of services.

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

Closing prices, June 6

Main table of stock prices with columns for 12 Month High/Low, Stock Name, Price, and Change. Includes sub-sections for 'D', 'E', 'F', 'G', 'H', 'I', 'J', 'K', 'L', 'M', 'N', 'O', 'P', 'Q', 'R', 'S', 'T', 'U', 'V', 'W', 'X', 'Y', 'Z'.

Continued on Page 37

NYSE COMPOSITE CLOSING PRICES

Table of NYSE Composite Closing Prices, including columns for 12 Month High, Low, and various stock symbols like AIG, AIGP, AIGS, etc.

AMEX COMPOSITE CLOSING PRICES

Table of AMEX Composite Closing Prices, including columns for 12 Month High, Low, and various stock symbols like AIG, AIGP, AIGS, etc.

OVER-THE-COUNTER Nasdaq national market, closing prices June 8

Table of Over-the-Counter (Nasdaq) national market closing prices for June 8, listing various stock symbols and their prices.

Advertisement for 'Get your News early in Stuttgart' featuring a newspaper illustration and contact information for The Financial Times (Europe) Ltd.

CURRENCIES, MONEY and CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar's decline to resume

A WEEK seems to be a long time in virtually every market these days but last week's cauldron of contradictions threatened to stretch currency dealings to eternity. It is odd that Mr Paul Volcker, US Federal Reserve board chairman, scheduled on Thursday afternoon what he has been warning against for some time now: that a further dollar decline. He did at the same time warn on the dangers of inflation although this seemed more of a codicil than an attempt to support the dollar.

The US Administration has had little joy from West Germany or Japan in its latest efforts to reduce trade imbalances but both countries have set timetables to adhere to with local elections in West Germany and a general election in Japan in the first week of July.

CURRENCY MOVEMENTS

Table showing currency movements for various countries including Sterling, US dollar, Canadian dollar, etc. Columns include currency name, bank of origin, and percentage change.

POUND SPOT—FORWARD AGAINST POUND

Table showing pound spot and forward rates against the pound for various currencies like US dollar, Swiss franc, etc. Columns include currency, spot rate, and forward rates for different periods.

FORWARD RATES AGAINST STERLING

Table showing forward rates against sterling for various currencies like US dollar, Swiss franc, etc. Columns include currency, 1-month, 3-month, 6-month, and 12-month rates.

EMS EUROPEAN CURRENCY UNIT RATES

Table showing EMS European currency unit rates for various countries like Belgium, France, Germany, etc. Columns include currency name, current rate, and percentage change.

MONEY MARKETS

Base rates in the melting pot

THE BANK OF ENGLAND'S money market operations on Friday provided a lively subject for debate at the end of a week dominated otherwise by guessing the timing of the next base rate cut. The Bank's decision to lend seven day money at 10 1/2 per cent was described by one dealer as "a non signal". This is probably true but only if its actions were ever designed to have a message in the first place.

WEEKLY CHANGE IN WORLD INTEREST RATES

Table showing weekly change in world interest rates for various locations like London, New York, Tokyo, etc. Columns include location, current rate, and weekly change.

MONEY RATES

Table showing money rates for various currencies like Frankfurt, Paris, Zurich, etc. Columns include currency, one month, two months, three months, six months, and Lombard rates.

£ IN NEW YORK

The Bank of Japan have not given a significant public reaction. There may be a revival of speculation that the two may join forces to provide support for the dollar although beyond a cosmetic exercise this could pose more problems than it would ever solve. As the market saw earlier this year, when everything was put on ice ahead of the French elections, it would be reasonable to suppose that any fireworks from Japan or West Germany would follow the same timetable.

Mr Volcker's words tend to carry more punch than most and this week's comments may have a more lasting effect. Earlier in the week the dollar had been dancing in all directions with activity centred on the latest statement about the dollar. Mr Martin Feldstein, former chairman of the US council of economic advisers, achieved sufficient attention to influence the market when he said that the dollar's fall below current levels was "substantial". Clearly the market should not continue to trade from statement to statement. In spite of what may be said, economic fundamentals are ultimately influencing the dollar have not changed and so the dollar's overall trend seems to continue to be in a bearish vein.

CURRENCY RATES

Table showing currency rates for various countries like Australia, Austria, Belgium, etc. Columns include currency name, current rate, and percentage change.

DOLLAR SPOT—FORWARD AGAINST DOLLAR

Table showing dollar spot and forward rates against the dollar for various currencies like British pound, Swiss franc, etc. Columns include currency, spot rate, and forward rates for different periods.

EURO-CURRENCY INTEREST RATES

Table showing Euro-currency interest rates for various currencies like US dollar, Swiss franc, etc. Columns include currency, short term, 7 days, 1 month, 3 months, 6 months, and one year rates.

BANK OF ENGLAND TREASURY BILL TENDER

Table showing Bank of England Treasury Bill tender details including total of applications, total allocated, and accepted bids.

FT LONDON INTERBANK FIXING

Table showing FT London interbank fixing rates for various currencies like US dollar, Swiss franc, etc. Columns include currency, bid, and offer rates.

LONDON MONEY RATES

Table showing London money rates for various currencies like US dollar, Swiss franc, etc. Columns include currency, one month, two months, three months, six months, and one year rates.

LIFE LONG GILT FUTURES OPTIONS

Table showing life long gilt futures options for various maturities like 120, 125, 130, etc. Columns include price, call, and put rates.

LIFE US TREASURY BOND FUTURES OPTIONS

Table showing life US Treasury bond futures options for various maturities like 30, 35, 40, etc. Columns include price, call, and put rates.

PHILADELPHIA SE 1/8 OPTIONS

Table showing Philadelphia SE 1/8 options for various maturities like 120, 125, 130, etc. Columns include price, call, and put rates.

CHICAGO CURRENCY FUTURES

Table showing Chicago currency futures for various currencies like US dollar, Swiss franc, etc. Columns include currency, current rate, and percentage change.

EXCHANGE CROSS RATES

Table showing exchange cross rates for various currencies like US dollar, Swiss franc, etc. Columns include currency, current rate, and percentage change.

HOW INDEPENDENTLY IS YOUR GILT PORTFOLIO BEING MANAGED?

How confident are you that the company managing your gilt portfolio is acting purely in your interest? If the company is also involved (directly or indirectly) in the trading of gilts, then the objectivity of their advice could easily be in question.

Advertisement for Reserve Asset Managers Limited, featuring a 'GILT PORTFOLIO' book and a 'DEALERS BOOK'. The text describes their services in managing gilt portfolios and provides contact information.

Advertisement for Henderson Prime Residential Property Offshore Fund Limited, detailing the company's services and contact information.

Advertisement for Kone Corporation, featuring the KONE logo and details about their U.S. \$50,000,000 Floating Rate Notes Due 1994.

Advertisement for Finstat, featuring the Finstat logo and details about their online financial data services.

Advertisement for Reserve Asset Managers Limited, detailing their services in managing gilt portfolios and providing contact information.